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Cooperative Marketing of Animal Health Products

Abstract

Cooperative Marketing of Animal Health Products

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This report uses eight case studies to identify elements of successful cooperative programs for retailing over-the-counter animal health products (AHP). It provides practical information on AHP marketing strategies and methods for cooperative retailers, planners, and researchers. All participating cooperatives except one provided information for fiscal years ending during calendar year 1986. The exception was for 1987. Information about five AHP suppliers and their marketing programs is included to enhance understanding of retailer programs.

Keywords: Cooperative, advertising, animal health products, centralized, federated, local, margin, marketing, over-the-counter.

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Preface

Agricultural Cooperative Service (ACS) conducted this study to identify elements that contribute to successful cooperative programs for retailing over-the-counter (OTC) animal health products (AHP). The purpose of the study was to supply practical information on AHP marketing strategies and methods for cooperative retailers, planners, and researchers.

A series of eight case studies of successful cooperative retailers were developed through personal interviews and followup discussions with the retailers and their suppliers. Case studies are based on fiscal years ended during calendar year 1986, except case FA-2, a fiscal year ended in 1987. Information about the suppliers and their marketing programs is included to better understand the programs of individual cooperative retailers.

The eight cases developed represent wide variations in size of business, marketing approach, and degree of success. The eight were selected as examples from five cooperative organizations or systems; that is, a centralized system, two federated systems, and two unaffiliated systems, as defined in the glossary. The first system is represented by a centralized regional (CR), and two of its outlets, CR-1 and CR-2. The two federated systems are represented by the first federated regional (FA), and two of its locals, FA-1 and FA-2, followed by the second federated regional (FB), and two of its locals, FB-1 and FB-2. The two unaffiliated systems are represented by a noncooperative manufacturer (UL-1S), and its customer, local UL-1, followed by UL-2S and its customer, local UL-2.

In addition to identifying cooperatives by anonyms, their anonymity is further protected by using common terminology throughout the report--department, territorial representative (TR), and so forth, instead of terms indigenous to respective cooperatives.

Numerical information in this report usually reflects the best estimates by cooperative representatives. Only one outlet kept complete and detailed financial records on AHP as an autonomous product line.

Finally, retailer cost to market AHP, as reported herein, understates the true cost of business. Frequently, TR's from suppliers provide varying degrees of assistance to retailers. The cost of these services, which are part of the cost of goods sold in an accounting sense, need to be considered when assessing the effectiveness of expenditures at the retail level.

Appreciation is extended to 50 interviewees who supported the study and shared their time and knowledge, and to John R. Dunn, Program Leader of Farm Supplies, who shared his time and counsel.

Contents

Highlights

This study was conducted to identify elements that contribute to successful retailing of over-the-counter animal health products (AHP) by cooperatives. Eight case studies, based on 1986 and 1987 information, were developed representing wide variations in size of business, marketing approach, degree of success, and type of cooperative system. Two represent centralized systems, four represent federated systems, and two represent unaffiliated systems.

Eight Cooperative Retailers

Case 1. Handling only 130 items for 270 customers, CR-1, an outlet of a centralized regional cooperative, sold $19,300 of AHP. Treated as a secondary product line, AHP generated a gross margin of 12 percent.

CR-1's marketing centers on its manager, who concentrates on intensive promotion and advertising efforts. Promotion featured an all-store sales event in conjunction with the outlet's annual meeting. Advertising came primarily from the parent cooperative's magazine and customer fliers.

Ninety percent of sales of AHP were executed at the store; 10 percent were made during 600 onfarm sales calls. Ninety-five percent of the purchases were made from the parent cooperative. CR-1 paid about the average price of all the parent's outlets for its AHP.

Case 2. Outlet CR-2 sold $168,000 worth of 320 AHP to 400 patrons. Treated as a primary product line, AHP sales equaled 60 percent of the market area's AHP sales, contributed to 10 percent of the outlet's net revenue, earned a gross margin of 22 percent, and equaled $420,000 per- man-year invested.

CR-2's marketing effort is headed by its manager, who has much marketing experience and enthusiasm for AHP. He focuses his effort on buying AHP and onfarm selling. The manager negotiated prices on at least 95 percent of CR-2's AHP purchases and bought AHP at about 6 percent under the average paid by all of CR-2's parent outlets. This helped CR-2 to become price competitive with a direct-to-farm distributor. The manager made nearly half of about 1,400 farm calls.

Case 3. Local FA-1 is an independent grain-marketing cooperative that is the first of four locals that are part of a federated system. It sells 90 AHP to 110 customers out of its confined feed mill office. AHP form a primary line of products, generating $78,370 revenue, a 19-percent gross margin, and a 15-percent share of market.

The feed mill manager heads FA-1's AHP marketing, assisted by a part-time outside fieldman whc is subsidized by FA-1's cooperative AHP wholesaler. FA-1's principal strengths in marketing AHP are a close tie between AHP and feed products and a strong selling effort. The latter is evidenced by a personal approach to instore selling. It is further demonstrated by an average of seven onfarm calls per AHP customer annually. FA-1 supplements these strengths with very aggressive buying practices and reasonable patron prices. This local

pays about 7 percent less for AHP purchased from its cooperative wholesaler than all of the wholesaler's locals.

Case 4. FA-2 is the farm store of a local farm supply association. It retails 220 AHP to 290 patrons. This store sold $40,430 of AHP in 1987 and generated a gross margin of 20 percent.

FA-2's marketing of AHP is headed by a highly motivated store manager, assisted by a routeman and a part-time onfarm salesperson who is partially subsidized by FA-2's cooperative wholesaler.

AHP is a secondary product line compared with feed and dairy supplies and equipment, but it fits well into a very strong onfarm selling effort featuring some 4,000 farm calls per year. About 3,000 were made by the routeperson, who covers 20 routes every 5 weeks. Except for mailing four fliers, FA-2 does little advertising and has had limited success with AHP promotions.

Case 5. FB-1 is a farm-supply local. In 1986, it served 1,200 AHP customers, sold 550 AHP worth $120,500 through its main store and a satellite, and held a 60-percent share of the AHP market. FB-1's marketing team, which cost the local nearly 14 percent of its AHP revenue, is headed by an energetic product manager two organizational levels below the general manager.

FB-1's AHP retailing features large product displays and a main store that serves a daily average of 500 patrons in the spring. It also features a strong advertising effort that relies heavily on its cooperative supplier. This effort features advertisements in the local newspaper and three types of mailings, including its cooperative supplier's monthly newspaper. Instead of employing an onfarm sales specialist, FB-1 assigns three in-store salespersons to call on 200 top farmers three times a year, mostly during the summer.

Case 6. Handling only 90 items for 1,300 customers, farm supply local FB-2 sold $120,500 of AHP. Treated as a primary product line, AHP sales generated a gross margin of 17 percent and equalled a 60-percent market share.

FB-2's marketing of AHP centers on an enthusiastic product manager two organizational levels below the general manager. The local's program focuses on instore selling, reflecting the store manager's many years in merchandising. Eighty percent of FB-2's AHP orders are received there. FB-2 relies heavily on its cooperative wholesaler's marketing program. In 1986, FB-2's promotion activities featured sales dinners and 2 weeks of customer appreciation days.

At least 90 percent of FB-2's AHP purchases were made from its cooperative wholesaler, with the local paying about the average price of all the wholesaler's locals. FB-2's trucks handle most of the local's AHP purchases, making daily calls at one of the cooperative wholesaler's distribution centers.

Case 7. UL-1 is a farm supply center which is unaffiliated with cooperative wholesalers. It is owned by and receives strong support from its parent, a large milk cooperative. Treating 250 items as a primary product line, UL-1's AHP sales totaled $625,000, served 135 dairypersons, equaled 55-percent market share, earned a gross margin of 15 percent, and equaled

$446,000 per man-year invested. UL-1 also handles a line of ethical products.

UL-l's marketing effort is headed by the store manager who is a veteran marketer and has great enthusiasm for AHP. He focuses UL-1's marketing program on product buying and onfarm selling. UL-1 buys 70 percent of its AHP directly from eight manufacturers. It relies on three route truck drivers for onfarm selling who make about 7,000 weekly calls per year. The drivers receive 90 percent of the orders and deliver 95 percent of the product. UL-1 prices competitively; it does no advertising and little promotion.

Case 8. UL-2 is also an unaffiliated farm store owned by a milk cooperative from which it receives strong support. Treating AHP as a primary product line, UL-2 handled 220 items and sold $480,000 to 990 AHP customers and $533,000 of AHP per man-year invested. UL-2 sold most of its AHP to dairymen, but 7 percent went to some 600 urbanites.

UL-2 employs no outside salespersons; virtually all of its selling is done through a 3,200-square foot store. UL-2's two principal marketing strengths are a seasoned and dynamic store manager and competitive prices. The manager's experience is evidenced by relatively low purchase prices (even from one distributor that operates route trucks within UL-2's market) and effective inventory control.

Low retail prices are possible because UL-2 operates on only a 10-percent gross margin, making it a discount store and the area's price setter. This fact attracts many buyers, so UL-2 neither advertises nor promotes AHP.

Five Cooperative Wholesalers

Information about the wholesalers that supply retail cooperatives is included to enhance understanding of retailing programs.

Centralized Regional. Centralized Regional (CR) owned CR-1, CR-2, and 115 additional outlets through which it retailed AHP across 150,000 square miles. It handled 2,180 AHP, wholesaled $2.0 million of these products (an average of $17,400 per outlet), and earned a gross margin of 13 percent. It employed a 13-person marketing team who sold $848,000 of AHP per man-year invested.

CR's wholesaling revolves around 10 sales events, including a special March event. Monthly advertising in the regional's magazine and fliers precede all sales events. CR promotes AHP extensively, practices flexible pricing to meet retail competition, and uses route trucks to deliver AHP weekly from a single distribution center. It also supports its outlets indirectly by offering employee training programs and by assuming selected managerial functions that free outlet personnel for selling activities.

Federated Regional A. FA-1, FA-2, and some 1,200 other independent local cooperatives across a trade territory of 270,000 square miles own Federation Regional A (FA). This regional handles 340 AHP, wholesaled $2.8 million of these products ($2,400 per local), and earned a gross margin of 15

percent. Its marketing team comprises 55 persons, including three telemarketers.

FA directed its main marketing effort into quarterly programs, but supplemented them with six bookings and a special winter sale. The regional relied on local cooperatives for retail advertising and spent about half of its promotion budget on sales incentives. Buying and pricing took up the bulk of the time a part-time product manager spent on AHP. FA recruits, trains, and subsidizes 40 percent of its locals' onfarm sales force. It provides training programs for local cooperative employees and supports its locals by offering several business services.

Federated Regional B. Federated Regional B (FB) serves FB-1, FB-2, and 77 other local cooperative owners across a market of 40,000 square miles. FB wholesaled $5.2 million of AHP (850 items and $66,400 per local). It held a 65-percent market share and earned a gross margin of 15 percent. FB employed a 10-person marketing team, which sold $1,381,000 per man-year invested.

Seven men of the marketing team are territorial representatives, which FB's product manager and his assistant strongly support. They spend 1 to 1.5 days per week in the field helping representatives, as well as employees of local associations. This is their most important selling effort. Major retail sales in March and September also consume considerable staff resources. Sales are backed by bookings that move 20 percent of FB's annual AHP sales. A product show (an all-expense paid event for local employees) further enhances the September sales' booking program.

FB acts as a price leader and advertises AHP at the retail level, principally through its monthly newspaper. It warehouses AHP at three distribution centers convenient to most locals. It subsidizes onfarm salespersons at 26 of 79 locals and provides a range of business services, notably a state-of-the-art information management system.

Two Noncooperative Suppliers. UL-1S, a large international pharmaceutical company, is one of eight manufactures that supply UL-1 with AHP. This manufacturer handles about two dozen AHP, spending about $27,000 on advertising and promotions within its territory encompassing UL-1. The territorial representative is a 14-year veteran in AHP sales who covers about 150,000 square miles, advises on products and promotions, helps with orders, and periodically rides with UL-1's routemen in support of their selling efforts.

UL-2S is one of several distributors serving UL-2. It handles at least 1,000 AHP plus several other product lines. In 1986, it wholesaled $2.5 million worth of AHP. UL-2S used 3.25 routepersons to serve nearly 350 dealers over almost 90,000 square miles of market. They generated 85 percent of the distributor's AHP sales and delivered 20 percent of the product. UL-2S processed orders quickly, spent $32,000 on advertising and promotion, and otherwise provided standard wholesaler services. Additional information is summarized in the appendix.

Cooperative Marketing of Animal Health Products

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Animal health products (AHP) constitute a U.S. industry that became commercial in the early 1900's, when it began to manufacture hog cholera vaccines. In 1986, U.S. manufacturers sold 2.1 billion dollars' worth of AHP, in the following categories: feed additives, $1.07 billion; pharmaceuticals, $844 million; and biologicals, $193 million. Measurable portions of the pharmaceuticals and biologicals are sold as ethical products.

Farmer-owned cooperatives have marketed AHP almost from the time the AHP industry became commercial. At least one cooperative began to produce and market hog cholera vaccines during this period. Presumably, farmer cooperative sales of AHP have paralleled and emulated those of the industry. Currently, there is no record of cooperative sales of AHP, but it may be reasonable to assume that farmer cooperatives hold about 25 percent of the U.S. market, a little over their share of feed production.

CENTRALIZED REGIONAL COOPERATIVE

CR-1 and CR-2 represent 117 outlets owned by Centralized Regional (CR) through which CR retails AHP, other farm supplies, and some consumer goods, as well as supplying services related to AHP and other products. CR's farmer owners and other patrons served by CR-1 and CR-2 are only a small portion of the 50,000 served by CR across a trade territory covering 150,000 square miles. Case studies of CR-1 and CR-2 will be discussed subsequently, but first some background about CR and the support it gives its outlets as a wholesaler of AHP.

In 1986, CR wholesaled $2.0 million of OTC animal health products. In the process, it earned a gross margin of 13 percent and a net margin of 6 percent after refunds and commissions that increased net margin by 115 percent (table 1). AHP revenue averaged $14 per square mile of trade area and $17,400 per CR outlet. Important costs, as a percentage of revenue, ranked as follows: payroll, distribution, advertising, and travel.

CR handled 2,180 AHP items. The importance of each species to CR is shown by the following percentages of AHP revenue from each: beef cattle, 50; horses, 15; dairy cattle, 10; pets, 10; swine, 5; poultry, 5; and other, 5.

In 1986, CR's market penetration was no more than 5 percent of its market's total AHP sales. The regional faced 10 major competing wholesalers, 8 selling solely through dealers and 2 selling both to dealers and farmers.

Table 1—Revenue and costs from wholesaling animal health products, centralized cooperative regional (CR), 1986

Item	Percentage of revenue
	Percent
Revenue	100.0
Cost of goods sold	86.9
Gross margin	13.1
Costs of business	
Payroll and related costs	(2.9)
Distribution	(1.4)
Promotion	(*)
Travel	(.2)
Advertising	(1.2)
Other	(4.8)
Total	10.5
Net margin before commissions and refunds	2.6
Commissions on direct shipments	2.2
Refunds on advertising and promotions	.8
Net margin after commissions and refunds	5.6

* Less than 0.1 percent.

Wholesaling

The AHP department wholesales AHP for CR. It is headed by a product manager who has directed this department intermittently for 6 years. He supervises an assistant and a secretary, and helps 10 territorial representatives (TR's) market AHP, making a marketing team of 13. CR devoted 2.4 man-years to AHP, and sold an average of $848,000 worth of these products per man-year in 1986.

Neither the product manager nor his assistant spends more than 10 percent of their time in the field. They try to compensate through conferences with field personnel, sales supporting activities, and a team approach towards store managers and personnel in all departments. The product manager's prime responsibility is to service CR's outlets and generate an acceptable margin.

The feed department hires and supervises the TR's who sell feed and AHP. They form a crucial link between the home office and CR's outlets. They typically cover territories of about 15,000 square miles, devoting only 5 percent of their time to AHP. TR's support all AHP sales by reviewing outlet inventories and suggesting order quantities. In addition, TR's help outlets retail AHP by assisting with farm calls, sales meetings, demonstrations, patron appreciation days, and general advertising and promotional activities. They seldom take product orders from farmers.

Selling

In 1986, CR's wholesale selling was strongly oriented around 10 sales events. Nine were regular events that generated about 10 percent of the wholesale volume. One was a special annual March event that generated another 10 percent. Regular sales spotlighted 6 to 10 items, while the annual sale featured a much broader line of 41 products. All sales ran concurrently with those by the retail department featuring hardware. TR's were briefed during presale meetings.

The marketing team frequently induces the outlets to buy AHP by helping two or more of them consolidate purchase orders. It does this most frequently when suppliers announce price increases. The retail department's telemarketers also stimulate orders through weekly telephone calls to CR's outlets.

Advertising

Advertising takes up a major portion of the AHP department's time and budget; for advertising precedes all AHP sales events. The AHP department receives important support from two other departments that provide the vehicles for CR's two-part advertising campaign. With this support, the AHP department is able to mount a campaign it could not otherwise afford.

The first part of the campaign, involving most of the AHP advertising is in CR's 30-page monthly magazine. The March 1986 issue featured a centerfold plus a half page of other advertising, scattered throughout the magazine; other issues advertised only one to six products. The March advertisement emphasized savings, reinforced by color; other advertisements had neither prices nor color. CR mails its magazine to about 120,000 patrons and friends, with the outlets paying $2 per subscription.

The second part of the campaign involves advertisements of all sales events in the retail department's monthly fliers–eight-page, multi-colored, and glossy-finished publications. March is the big month for AHP, using 25 percent of the advertising space in 1986, versus 4 to 5 percent of the space in other issues. Fliers support outlet retailing by reaching a million potential customers at a nominal cost to the outlets. CR mails up to 50,000 fliers for some.

Outlet managers are encouraged to capitalize on CR's AHP advertising by supplementing it with their own. CR supplies advertising copy, radio scripts, posters, photographs, and so forth. Many outlets use these services, have the retail department's fliers inserted into local newspapers, and have CR develop and place advertisements for them.

The AHP department also supports the outlets by advertising AHP in magazines serving livestock producers, passing on supplier materials, and providing product catalogs.

While they are not advertising, per se, the product manager's memos to the field staff supplements AHP advertising in an important way. Containing mostly valuable technical information, they forestall many inquiries and thereby conserve the product manager's time. He mails about three of these memos every two months.

Telemarketers also provide much advice. Though their technical information is limited to that found in the catalog, they provide valuable information regarding product availability, ordering procedures, prices, and sales events.

Promotion

The AHP Department incurred only a nominal direct expense in promoting its products because it relied heavily on other organizations. AHP manufacturers supplied speakers for many of the sales dinners hosted by CR's outlets. State Extension Services and CR's retail department took the lead in most product demonstrations.

CR used incentives to stimulate TR's promotion of the 1986 March sale. Incentives included a cash bonus to TR's for meeting sale goals and a new wardrobe to the TR who best contributed to the sale. Within each territory, the outlet person responsible for the best point-of-purchase (P.O.P.) display received a dinner with the TR and their spouses.

In total, advertising and promotion cost CR $171 per square mile of trade area and $10,700 per man-year expended on marketing AHP.

Pricing

Pricing is the AHP department's second major activity. Some prices remain unchanged for a long time, while others vary with changes in supplier offerings and in response to pressures by outlet managers. Price changes are reflected on a price sheet periodically distributed by the product manager. Besides the wholesale price, each item on this sheet carries a suggested retail price, the supplier's name, an estimated retail gross margin, a suggested minimum order, and CR's inventory.

Price pressures are extreme at some outlets, so CR works with those locations by flexing its prices. In doing this, however, the regional tries to protect its margin by requiring larger orders and by arranging for direct manufacturer shipments.

Buying

Effective buying practices are crucial to the success of CR's AHP program. Therefore, they represent an extremely important part of the regional's AHP marketing program. CR enhances its effectiveness by using some 85 AHP suppliers, mostly manufacturers, including one interregional cooperative which supplies small volume items equalling 5 to 10 percent of CR's purchases. Sometimes CR is able to enhance its margin by inducing suppliers to add free products to orders, thereby reducing the real price paid.

CR purchases most of its AHP by phone and mail, but relies heavily on manufacturer representatives for advice, especially on the timing of product orders. CR tries to anticipate outlet needs and to inventory adequately.

Ninety-five percent of the AHP purchased in 1986 was received at CR's general-purpose distribution center, with the remainder shipped directly to CR outlets. Inventory averaged $617,000 in 1986; it turned three times during the year. The retail department operates CR's distribution center.

Other Support Activities

In addition to the direct support which the AHP department gives, CR indirectly supports AHP retailing by CR-1, CR-2, and other outlets.

First, CR's feed department's sales activities enhance AHP revenue, other things equal, because livestock producers associate AHP with feed. This relationship is evident even in the sales dinners put on by CR's outlets. Often the feed department's TR's arrange for presentations by representatives of AHP manufacturers, who usually pay for the privilege. This contribution enables both the Feed and AHP departments to stretch their budgets, and often enables the outlets to hold dinners without a cash outlay.

Second, the retail department sponsors a series of courses for outlet personnel that cover such subjects as on-farm selling, in-store selling, financial management, store layout, marketing strategy, and so forth. Similarly, the Feed Department holds classes aimed at heightening employee performance relative to feed and AHP. Third, CR's Public Relations Department oversees a program aimed at strengthening the outlets' future demand for AHP. This program encourages young farm people to understand and use cooperatives.

Finally, CR supports its outlets in a special manner because it owns them. Through its retail division, CR assumes responsibility for such managerial functions as accounting, billing, financing, risk management, and physical facilities. This indirectly aids AHP retailing by freeing outlet personnel to buy, sell, and otherwise retail these products.

Retailing by CR-1

CR-1 has sold AHP since its opening in 1946. In 1986, it sold $19,300 of AHP, earned a gross margin of 12 percent of sales, and ended the year with a net margin of -2 percent (table 2). Supplier refunds were more important to CR-1 than to any other outlet in the

Table 2—Margins from the sale of animal health products, outlet one (CR-1) of centralized regional, 1986

Item	Volume	Percentage of sales
	Dollars	*Percent*
Revenue	19,320	100
Cost of goods	17,000	88
Gross margin	2,320	12
Cost of business	3,120	16
Net margin before refunds	(800)	-4
Refunds from suppliers	390	2
Net margin after refunds	410	-2

Table 3—Costs to market animal health products, outlet one (CR-1) of centralized regional, 1986

Cost items	Percentage of total costs	Percentage of total revenue
	- - - *Percent* - - -	
Payroll and related costs	45	7.3
Promotions	24	3.9
Advertising	12	1.9
Travel	3	.5
Other costs	16	2.5
Total	100	16.1

study. They equaled 2 percent of revenue, reducing CR-1's net loss by 49 percent. AHP sales, slightly over 1 percent of CR-1's total revenue of $1.86 million, were very small compared with feed sales of $1.2 million. AHP receives much less attention than feed.

CR-1 spent $3,100 to market AHP in 1986, with payroll expenditures accounting for nearly half of this amount, or 7.3 percent of AHP revenue (table 3). Other expenditures ranked according to their percentage of revenue were promotions, advertising, and travel. Payroll costs covered 0.08 man-year of effort, 1 percent of the outlet's employment of 6.7 man-years in 1986. Given such a small input of manpower, CR-1 gained $242,000 in AHP revenue per man-year expended on AHP.

About 270 of CR's members are customers of CR-1; some 90, mostly dairymen and beef-cattle raisers, buy AHP. The outlet sold 10 percent of its AHP for the care of horses and small animals, even though CR-1's market (900 square miles) contains only one city of 15,000 population. AHP revenue averaged $210 per AHP patron and $21 per square mile of market area.

As a share of total, CR-1 sold AHP to care for the following species of livestock: dairy cattle, 60 percent; beef cattle, 25 percent; horses and pets, 10 percent; swine, 2 percent, and other species, 3 percent.

This outlet serves an estimated 5 percent of its local AHP market. Its 25 competitors include a nearby cooperative, 4 retailers with route trucks, 12 veterinarians, 4 mail-order suppliers, and 5 other retailers. Routemen offer strong competition with their extensive service, while the veterinarians are strong competitors through their dairy-herd health programs, including their own OTC products.

AHP marketing centers on a team including CR-1's manager, his assistant, and a salesperson. The manager and his assistant focus on farmer sales, while the salesperson focuses on the owners of horses and small animals. All members of the marketing team have at least 2 years of college and are in their mid-thirties. In 1986, the manager had about 10 years of experience in selling, including being CR-1's manager since 1983.

Backed by its parent company, CR-1 conducted relatively intensive efforts to promote and advertise AHP in 1986.

Promotion

Sales dinners in January and September were responsible for nearly a third of the total cash outlay for promotions. The remainder was fairly evenly divided among four other categories: association meetings, CR-1's annual business meeting, a Dairymen's Week, and demonstrations of AHP.

Attendance at the 1986 sales dinners averaged around 25 farmers. The first dinner featured a presentation by the TR from CR; the second, a presentation by an AHP manufacturer. The dinners yielded worthwhile exchanges of information but no direct sales. The sales came over the next few days as outlet personnel made followup calls.

During 1986, CR-1 hosted two monthly dinner meetings of the local dairymen's association. For example, it treated 40 dairymen to a dinner in June at which a TR spoke on AHP. This dinner, though less expensive, was also less productive than CR-1's

dinners. The TR covered dinner cost, however, so any sales increase yielded unencumbered profit.

In October, this outlet held a 4-day, Wednesday through Saturday, all-store sales event in connection with its annual meeting. This event brought in $3,000 worth of AHP business, some 15 percent of the year's total. The sale was well advertised. Many patrons already looked forward to it, attesting to the cumulative effect of similar events in previous years.

The sale was held in the warehouse because CR-1's showroom can only hold a maximum of 20 customers. The setting encouraged socializing as well as business. By using a tent and employing a clown at previous sales events, CR-1 has created a festive atmosphere.

Attendance peaked on Friday, the day of the barbecue and short business meeting, and the day when all 12 supplier TR's were present. CR-1 fed 270 persons. Out-of-pocket costs totaled $1,200 for the entire event, of which a tenth was charged to AHP. Suppliers covered the entire cost by contributing $100 each.

The outlet makes an important contribution to the local Dairymen's Week, a sizable civic event held annually in June, with carnival, marathon races, and other special events that attracted about 13,000 people in 1986. The outlet joined a manufacturer's TR in sponsoring a tent show with four other local businesses and the Dairymen's Association.

In 1986, CR-1 participated in four product demonstrations, the most important being at a Hay Day event which attracted about 550 farmers. Sponsored by a nearby Experiment Station, this event enabled farm dealers to show their latest tractors and haymaking equipment. Salesmen and product specialists from CR, the outlet, and a supplier of hay preservatives were there to demonstrate and discuss products.

Exhibitors covered the cost of the demonstrations, as they did most of CR-1's other promotions. Consequently, supplier refunds halved CR-1's potential loss on AHP marketing.

Advertising

In 1986, about two-thirds of CR-1's advertising budget was spent on newspapers, CR's magazine, and fliers inserted in the local newspaper. Advertisements on local radio stations and in publications of local clubs made up the balance of the direct charges.

Advertisements were placed primarily in the hometown weekly. About once a month, it carried "Know CR-1" and up to half-page advertisements that included AHP. These insertions featured new and high-margin AHP without giving prices. Also, 10 times during the year, this newspaper inserted 5,000 copies of the retail department's flier at $0.03 apiece.

Fifteen times during the year, the outlet supplemented hometown advertisements by placing ads in the weekly of a nearby town.

Ten times during the year, 290 patrons received CR's magazine, supplemented by handouts at the outlet. CR-1 also advertised in publications of the local Dairymen's Association and in fliers of youth organizations.

Through an overhead charge, CR-1 paid CR for radio and TV advertisements and advertising attached to monthly customer statements. CR-1 reported no refunds from AHP suppliers for advertisements.

Selling

CR-1's promotions and advertising of AHP are designed to bring patrons into the outlet, an attractive and modern building near a major highway and adjacent to one of CR's regional feed mills. There, patrons executed 90 percent of their AHP purchases. Traffic was about 70 persons per day during the winter months, including 60 full-time farmers, and 120 patrons during the spring months.

Once patrons are inside the showroom, outlet personnel discuss their needs and provide the best advice possible. This is usually done from a counter opposite the outside door in a small showroom 25 by 30 feet. AHP take up a quarter of the display area, with the entire inventory often displayed.

CR-1 always has a point of purchase (P.O.P.) display positioned near the right end of the counter, readily accessible to patrons. The display generally is a stack of cased product and promotional materials from manufacturers. It is changed frequently and usually features a seasonal product, often an AHP. The manager reports that displayed products sell themselves, since patrons believe the display testifies that CR-1 supports the product.

Outlet personnel made only 60 on-farm sales calls for the sole purpose of selling AHP, since CR-1 emphasizes the sale of feed and other farm supplies. On the other hand, during the remaining 540 calls (an average of 7 per AHP customer per year) AHP were often discussed. Ten percent of CR-1's AHP sales were made during onfarm sales calls.

The manager makes about 400 onfarm calls, while

his assistant makes the balance. The two make no geographic division of effort, calling on farmers with whom they have the greatest rapport. On average, the manager spends up to 2 days a week visiting farmers.

The manager attributes his success in selling to (1) being identified with CR (being "Mr. CR" in his community) and (2) being closely tied to community activities. His sales program is enhanced by support from the outlet's board of advisors, persons chosen because of their success in farming and their status in the community.

Delivery is an important tool for selling AHP. Close to a 25 percent of these products are delivered, mainly by feed trucks at no cost to CR-1. Thus, the feed division provides this outlet with a unique sales support.

Pricing

CR-1's manager tries to buttress his promotional and selling programs by pricing AHP appropriately. He accepted only about 50 percent of CR's suggested retail prices in 1986. He frequently raised prices on pet products, striving for a 20-percent gross margin to compensate for low margins on products like mastitis treatments that yielded no more than 10 percent.

According to the manager, CR-1's prices were still higher than those of its principal mail-order competitor in nine out of ten cases. Compared with other competitors, however, CR-l is relatively competitive. This observation is supported by a gross margin of only 12 percent. CR-1 stressed service as a means of overcoming its disadvantage relative to mail-order houses.

Purchasing

Ninety-five percent of CR-1's AHP is purchased from CR. Since CR's outlets may purchase from other suppliers, CR-1 uses about a half dozen sources, mostly to purchase products not handled by CR. TR's from other suppliers call on CR-1 regularly and help with its orders. Most orders are placed through CR, however, and it is credited for these sales. The outlet ordered about 40 percent of its purchases through CR's telemarketers in 1986.

Nearly 30 percent of CR-1's purchases were made under cost-saving arrangements. Ten to 15 percent were bought in preparation for CR's March sale, a similar proportion for CR's regular sales, and 7 percent to take advantage of the AHP Division's efforts to consolidate purchases.

CR-1's manager generally accepts CR's list prices, negotiating on no more than 3 percent of AHP purchases from CR. The manager seldom checks prices with other suppliers. As a result, CR-1 pays CR about the same average AHP price as that paid by all of the regional's outlets.

Inventory

Since CR-1 is not a full-sized outlet, it stocked only 130 AHP in 1986, just 6 percent of the products handled by its parent. These products were stocked heavily, however, at an average value of $8,700. CR-1's inventory turned only 2 times, about a quarter the turnover rate of CR-2, the other outlet in CR's system. Still, outlet personnel frequently placed rush orders because of a restricted product line.

CR-1's Strengths in Retailing AHP

CR-l has six elements in its program for retailing AHP that are relatively strong compared with other retailers in this study. These retailing strengths are: (1) a product manager in a position to successfully retail AHP, being young and energetic and financially accountable as the outlet's manager and by having a moderate amount of selling experience; (2) a relatively strong advertising and promotion program; (3) fairly competitive prices; (4) a moderate level of sales effort that includes seven on-farm visits per AHP customer per year and quality in-store selling, especially for a small store; (5) a potentially strong tie between feed and AHP sales (CR operates a feed mill next door to CR-l); and (6) heavy use of CR's support, especially as a source of AHP and with advertising and operational activities.

Retailing by CR-2

CR-2 has sold AHP since it opened for business in 1959. Sales have grown steadily and reached $168,000 in 1986 (table 4). During that year, AHP earned an average gross margin of 22 percent and a net of 8 percent. Three-tens percent of the net margin came from supplier refunds.

AHP contributed to 10 percent of the outlet's total revenue, $1.69 million, and 18 percent of its net revenue, $73,200. Part of the relatively large contribution to net revenue is explained by (1) AHP being treated as a primary line of products and (2) a

Table 4—Margins from the sale of animal health products, outlet two (CR-2) of centralized regional, 1986

Item	Volume	Percentage of revenue
	Dollars	*Percent*
Revenue	168,000	100
Cost of goods	131,520	78
Gross margin	36,480	22
Cost of business	23,070	14
Net margin before refunds	13,410	8
Refunds from suppliers	480	*
Net margin after refunds	13,890	8

* Less than one percent.

Table 5—Costs to market animal health products, outlet two (CR-2) of centralized regional, 1986

Cost items	Percentage of total costs	Percentage of total revenue
	- - - Percent - - -	
Payroll and related costs	58	8.6
Advertising	2	.3
Promotions	2	.3
Travel	13	1.8
Other costs	25	2.7
Total	100	13.7

relatively low input of manpower. It totaled about 0.4 man-year of CR-2's 8.7 man-years in 1986, producing sales of $420,000 per man-year devoted to AHP. Manpower was still CR-2's largest marketing cost, followed by travel, promotions, and advertising (table 5).

Twenty percent of AHP revenue came from products for horses and small animals, even though CR-2's trade area (2,000 square miles) includes only one city of any size (12,000 population). Most of the remaining 80 percent was equally divided between products for swine and beef cattle. CR's trade area averaged 10 square miles per AHP patron. CR's AHP revenue averaged $84 per square mile of market.

CR-2 serves 400 AHP patrons out of some 800 members. About 550 members farm, but only 80 make agriculture their major source of income. These customers provide CR-2 with a 60-percent share of the AHP market. Each purchased an average of $420 per year.

The outlet shares its market with 18 competitors. They subdivide fairly evenly among retailers, veterinarians, and mail-order houses. The first group includes another cooperative and a direct-to-farm distributor, which is geographically close and price-competitive.

"AHP is an important product line for us," reported CR-1's manager, supporting earlier observations relative to AHP's share of revenue and market and the primacy of these products. He and his assistant exhibited exceptional enthusiasm for this line.

The two form the bulk of the outlet's marketing team for AHP. The manager, a man in his mid-40's, operates a hog farm, has managed CR-2 intermittently for 15 years, and was once one of CR's territory sales managers. He has at least 23 years of sales and marketing experience. His assistant, in his mid-30's, who shares fully in marketing AHP, has a degree in psychology and joined CR-2 in 1980. The marketing team also includes an in-house salesperson, a CR-2 employee since 1980.

Onfarm Selling

Onfarm selling receives more emphasis than any other component of CR-2's marketing program, and as a result, CR-2 has relatively high travel costs. Fifty percent of the outlet's orders originate on the farm, 40 percent by phone and 10 percent from person-to-person contact.

Much of the team's onfarm selling begins with the managers calling farmers with the largest accounts. They do this the evening before they make special personal deliveries of AHP. These accounts have such confidence in the managers' products, service, and prices, that they permit this telephone privilege. For most deliveries, the product, quantity, and the terms of sale are made by phone. The remainder represent sales from extra products the managers carry in their pickups.

The managers made about 480 special deliveries of AHP in 1986, excluding those made by delivery trucks. This equaled 70 percent of some 670 onfarm sales calls to service patrons' AHP needs. The 670 AHP farm calls totaled nearly half of all onfarm calls made by the manger and his assistant. The manager made about 800 calls himself, traveling 8,000 or 9,000

miles.

This delivery/sales service focuses intensely on the farmers with the largest accounts. Eight very large farms (mostly feeder pig farms) that purchased no feed from CR-2 received about 50 percent of all onfarm AHP calls, sometimes as many as three deliveries per farm weekly. Another 22 farms received special deliveries about once every 3 weeks, another 20 percent of the sales/delivery calls. The managers estimate that they personally delivered 40 percent of CR-2's 1986 AHP sales, while trucks handled 30 percent. Overall, all onfarm sales calls averaged five per AHP customer per year. The managers were always alert to the sales potential of each delivery.

Instore Selling

Patrons took delivery of another 30 percent of sales at the outlet. Thirty-five percent of the orders are placed there, showing the magnitude of instore selling. The outlet is an aging facility that sprawls along a major highway just inside the city limit, and is well-positioned for displaying wares outside.

While the outlet may serve a peak of 600 customers in 1 day, it averages about 200 daily during the spring season. Of these, perhaps 50 are farmers; the rest are urban dwellers. The average for all patrons drops to 80 during the winter.

The assistant manager serves about half of the instore patrons, the manager cares for 15 percent, and the instore salesperson deals with the remainder. They receive orders at a counter that is opposite the street entrance, against the back wall, and to the right of a warehouse entrance.

The AHP display is a nicely arranged room, although it is crowded. Located in the back corner to the left of the sales counter, it has three floor-to-ceiling walls and opens towards the counter. It covers ten percent of a 1,200 square feet display room. It is brightly lit and contains only one single-door refrigerator. The P.O.P. displays are normally simple, such as mobiles hung from the ceiling.

Being heavily involved in outlet business, the manager de-emphasizes community activities and obtaining marketing support from CR-2's board of advisers.

Purchasing

CR-2's management spends a significant amount of time purchasing AHP. It negotiates prices on at least 95 percent of the yearly total, including the 90-percent share bought from CR. It normally checks prices with two or three of CR's competitors, if purchases are sizable. The manager may even negotiate better prices than those offered by CR on cost-saving arrangements like the consolidation of orders. In the end, these arrangements account for no more than 15 percent of CR-2's orders from CR.

One of the reasons for this limited use of CR's program to consolidate orders is that CR-2's manager usually has adequate inventory on hand. He often has already worked out arrangements through CR's product manager to receive his purchases directly from AHP manufacturers (about two-thirds of CR-2's 1986 purchases). In the process, the manager had already taken advantage of manufacturers' booking programs and made large monthly purchases to take advantage of direct shipping.

CR-2's manager uses the phone to order 98 percent of his AHP purchases directly from CR.

Many of CR-2's purchasing procedures are atypical of CR's outlets. These exceptions are necessary for CR-2 to meet the direct-to-farm prices of its wholesaler competitor. In appreciation, CR-2's manager sometimes pays relatively high prices on CR's products if adequate margins can be achieved. CR has the right of final refusal over price on any CR-2 order of AHP.

As a result, purchasing activities net CR-2 an average savings of 6 percent on its AHP purchases, compared with the average price paid by all of CR's outlets. Purchasing activities include buying the correct products, which often include biologicals and other low margin items.

Inventory

CR-2 stocked 320 AHP. Inventory on hand averaged $16,800 and turned over nearly 8 times during the year, a high rate exceeded only by UL-2 in this study. This rapid turnover is attributable to the fact that many orders speed through the outlet within a few days, while some never go into the warehouse and are delivered within a few hours.

Pricing

CR-2's manager finds "making money is a super thrill," so he uses only half of CR's suggested retail prices. Rather, he takes three actions. (1) Working with CR's product manager, he reduces suggested

prices by as much as 20 percent on high-volume, low-margin products. This action is necessary to compete with the direct-to-farm distributor. It is possible because these products carry volume discounts, turn over rapidly, and their buyers are low credit risks. (2) The manager raises the suggested prices on many products sold at the outlet by as much as 20 percent. (3) He uses volume discounts. Thus, a purchase of one to three cases may carry a 10-percent markup, compared with 100 percent on a single bottle.

Advertising

CR-2's modest advertising expenditure covered a wide variety of mediums. First, the regional used advertisements in CR's magazine, on radio and TV, and in local newspapers. Second, it used fliers attached to monthly customer statements, other fliers, advertisements with local associations, and catalogs.

A select list of 375 patrons received 10 issues of CR's magazine advertising AHP during 1986. CR-2 bore its share of CR's advertising over radio and television stations. Meanwhile, CR-2 inserted biweekly advertisements in the local daily newspaper, and during 1986 began having CR's retail fliers inserted. The newspaper carried three insertions of 13,000 fliers at a cost of 4.5 cents per flier.

Besides the fliers attached to monthly patron statements originating from CR, the outlet mailed a special flier to each of five types of patrons (hog producers, cattlemen, etc.), two of them featuring AHP.

Promotion

In 1986, 80 percent of CR-2's promotional costs were invested in some kind of meal, mostly four farmer sales dinners. Usually held in the evening, an average of 35 guests attended in response to special invitations. Sometimes CR's people made presentations, sometimes manufacturers' representatives made them. Two featured AHP at special prices. Altogether these meetings generated an estimated 5 percent of the year's sales.

In 1986, CR-2 also supplied lunches or meals at quarterly farmer meetings sponsored by the local Extension Service, and arranged for speakers at two meetings. CR-2 neither held a customer appreciation day nor featured a dinner at its annual meeting in 1986, although it had done so in the past.

Both of CR-2's managers helped the county Extension Service, which sponsored spring and fall demonstrations on treating beef cattle. Demonstrations were conducted by local people because of their success in providing farmers with hands-on experience. CR-2 provided the squeeze chute and supplied most of the AHP. The manager thought these demonstrations contributed 5 percent of the year's AHP sales.

Suppliers covered 40 percent of the advertising costs and 60 percent of the promotions outlay.

CR-2's Strengths in Retailing AHP

There are eight ways in which CR-2's AHP retailing efforts are relatively strong compared with other retailers in this study. These retailing strengths are: (1) a successful product manager, financially accountable for AHP as the outlet's manager, who has extensive experience as an aggressive marketer and is very enthusiastic about AHP; (2) competitive prices, partially indicated by a gross margin of 14 percent; (3) a strong selling effort, especially from onfarm sales calls on large accounts; (4) a heavy use of CR, especially as a source of purchases, for price adjustments, and for operational support; (5) treating AHP as a primary product line; (6) relatively low purchase prices stemming from rigorous price negotiations; and (7) an ability to maintain customer satisfaction despite moderately heavy competition, indicated by the outlet's large market share and economical volume of AHP business. All foregoing elements combine to produce (8) a high net margin, which generates patron savings in lieu of lower prices.

FEDERATED REGIONAL COOPERATIVE A

Federated Regional A (FA) is owned by independent local cooperative associations across a trade territory of 270,000 square miles. This regional retails no products; instead, operating as a wholesaler, it supports 1,200 locals in their retailing of AHP. These locals are represented by FA-1 and FA-2.

During 1986, FA wholesaled $2.8 million OTC animal health products (table 6). This averaged $2,400 per local and $10 per square mile. These accomplishments represented no more than a 5-percent share of market. FA faces stiff competition from 16 wholesalers.

FA earned a gross margin equal to 15 percent of AHP revenue, but incurred a net loss of 8 percent after refunds and commissions. They reduced FA's loss by 16 percent. FA's costs were relatively high–25 percent of revenue–especially payroll, distribution, and other

Table 6—Revenue and costs from wholesaling animal health products, federated cooperative regional A (FA), 1986

Item	Percentage of revenue
	Percent
Revenue	100.0
Cost of goods sold	85.3
Gross margin	14.7
Costs of business	
Payroll and related costs	(8.1)
Distribution	(7.0)
Promotion	(.5)
Travel	(.4)
Advertising	(.9)
Other	(7.8)
Total	24.7
Net margin before commissions and refunds	-10.0
Commissions on direct shipments	1.0
Refunds on advertising and promotions	0.6
Net margin after commissions and refunds	-8.4

items.

The regional generated AHP revenue from only 340 products, a few of which carried FA's private label. Revenue was distributed according to the following percentages: swine-related products, 40 percent; products for dairy cattle, 39 percent; products for beef cattle, 10 percent; horse-related products, 3 percent; pet-related products, 1 percent; and products for other species, 7 percent.

Wholesaling

The AHP department spearheads FA's wholesaling of AHP. This department is headed by a product manager who took over in 1982. Sixty percent of his time is devoted to AHP marketing. The product manager has a minimal background in AHP, so he relies mainly on managerial and general marketing skills to supervise four employees and help 50 TR's market AHP. Altogether FA fields a marketing team of 55 persons.

Two of the AHP department's employees are marketing managers. Each is responsible for the sales and promotions program in half of FA's geographic market and for supervising one telemarketer and a secretary/telemarketer. The marketing managers lead in developing the marketing program, providing technical assistance, and offering department leadership for local retailing. TR's hired and supervised by the feed department perform essentially the same functions as the TR's with CR. They serve territories that average a little more than 5,000 square miles each.

The marketing team devoted 10.5 man-years to AHP in 1986, selling an average of $269,000 per man-year. Selling accounted for most of the marketing time.

Selling

FA is much more interested in selling feed than AHP, although management realizes that feed and AHP are complementary. In 1986, the AHP department directed its main selling effort through quarterly marketing programs, cooperating with the feed department as a junior partner. Products sold during the first three quarters were supported by booking programs, those in the fourth by a special sale.

Marketing kits developed for each quarterly program included product listings and descriptions, prices, and sales aids (newspaper advertisements, radio scripts, and so forth). Kits were shared with the TR's at their quarterly meetings. Each TR received enough to share with each of his locals.

The AHP department supplemented the quarterly programs through three selling approaches. One offered six bookings and a special winter sale. Each booking featured several products; the winter sale featured 25 of FA's top-selling AHP. Notifications of these events went directly to the locals, with the TR's minimally involved.

Another approach allowed selected AHP manufacturers to mail special advertising to FA's patron cooperatives. Under a third approach, the department's telemarketers called locals to exchange information and take purchase orders. Once in awhile, telemarketers visited local associations.

Advertising

FA channeled only a third of its advertising expenditure to media advertising. Although FA's monthly magazine occasionally includes articles on the use and value of AHP, the AHP department does no real advertising in this magazine. Rather, local associations carry the burden of retail advertising, aided by copy, scripts, and so forth, from FA.

FA concentrates on an indirect, advisory-type of

advertising, with two-thirds of its advertising budget spent on developing, printing, and distributing various support materials. These include quarterly marketing kits, free catalogs, and other information pieces.

Through 1986, FA detailed AHP in a three-ring catalog with replaceable pages. Information pieces are free producer handbooks and mailings. Handbooks cover beef, pork, dairy, and poultry, each containing 6 to 10 pages of information on animal health and AHP.

Mailings include four types, three of them distributed by the AHP department. One type contains technical information about new products, new instructions, and so forth. This type of information is mailed almost every Friday to the field force and frequently to local managers. The second type is a monthly flier sent to local cooperatives, which discusses subjects pertinent to AHP marketing. The third type are infrequently issued fliers for locals to distribute. These feature products being booked by FA, with final selection and pricing by individual locals. For a minimum order of AHP, FA prints and mails these fliers free of charge. The fourth type of mailing is a bimonthly newsletter containing noteworthy AHP information. It is issued by the Feed Department.

Promotion

About half of FA's cost to promote AHP was spent to partially fund giveaways, prizes, and similar incentives for locals to increase AHP sales. It spent the remainder supporting local sales dinners.

The marketing team supports locals' sales dinners, patron appreciation days, and similar events by encouraging and participating in them. It also staffed display booths at State conventions of animal producer associations.

In total, advertising and promotions cost FA $141 per 1,000 square miles and $3,600 per man-year spent to market AHP.

Buying

Buying and pricing AHP take the bulk of the product manager's time, in about equal proportions. He, like his counterparts in the other regionals, avails himself of all supplier bookings, but relies on only 22 suppliers.

Like his counterparts with other regionals, FA's product manager has found AHP manufacturers have rigid price schedules, with exceptions among pharmaceutical companies marketing substitutable products. In these cases, the product manager sometimes plays one company against another to obtain lower prices.

Through 1986, most of the purchases were received at a general purpose distribution center operated by the retail department. There the AHP inventory averaged $475,000 during 1986 and turned over five times that year. In 1987, the AHP department lowered distribution costs by establishing its own warehouse and arranging for its own deliveries.

Pricing

Each month, the product manager mails a price list to locals. It is simpler than CR's in that, for each product, the list gives only the supplier, a wholesale price, and discounts. Invoices carry suggested retail prices.

The product manager seems to experience less need to adjust prices than his counterpart with CR. Part of this may be because FA's competitors are geographically smaller than FA and more specialized, thereby forcing the regional to price comparatively low across its large market area.

Other Support Activities

In addition to the AHP department's direct support of FA's locals in their retailing of AHP, FA also supports this activity indirectly at FA-1, FA-2, and other local associations. First, the regional has found that when its marketing activities help a local increase feed sales, its AHP sales increase as well.

Second, FA's feed department recruits, trains, and subsidizes about 40 percent of its locals' onfarm sales force. In 1986, this meant that FA helped field 125 on-farm salespersons for 200 local cooperatives, with the regional paying 30 percent of their salaries. These salespersons sell feed and AHP, devoting about 5 percent of their time to AHP. This department also employed 25 animal and poultry specialists who provided some indirect aid to AHP marketing.

Third, the regional uses both formal and informal means to teach local employees how to market AHP. FA's personnel department provides most of the formal instruction through a well-developed, year-round, infield, training program. It offers courses generally helpful to AHP marketing. In addition, the data processing department offers courses in bookkeeping and accounting, while the feed department provides less formal training in its field schools and at seminars for

field personnel, mostly at the TR's quarterly meetings.

Fourth, FA supports its locals indirectly in retailing AHP through several general business services. These services include those needed for accurate and timely accounting and financial reporting, quality auditing, improved risk management, and modern merchandising. To the extent used, these services enable FA-1, FA-2, and other locals to be more effective in their retailing of AHP.

Retailing by FA-1

FA-1 is a local grain-marketing cooperative that operates elevators and a feed mill, manufactures feed for FA, and supplies feed, AHP, hardware, and hard goods to farmer patrons. It sells feed and OTC animal health products out of its feed mill office and the remaining items from a store in town.

The location of AHP selling shows the close relationship between feed and AHP. FA-1 added drugs to its feed for 10 years or so before beginning to sell AHP directly in the late sixties.

It now markets about 90 OTC products, about a quarter of FA's offering. In 1986, it sold $78,370 OTC products, earning a gross margin of 19 percent and a net margin of 8 percent (table 7). Revenue from AHP formed slightly under 1 percent of FA-1's total income of $9.82 million, and nearly 6 percent of its feed sales, $1.43 million. AHP form a primary line of products for this local.

In 1986, FA-1 spent $8,410 to market AHP. Payroll costs represented 42 percent of total costs and 4.5 percent of revenue (table 8). Payroll paid for 0.2 man-years of effort–4 percent of the 4.4 man-years used by the feed mill. Thus, FA-1 gained $412,000 of AHP revenue per man-year invested. Other costs, in descending order of importance were advertising, promotions, and travel.

Table 7—Margins from the sale of animal health products, local one (FA-1) of federated regional A, 1986

Item	Volume	Percentage of sales
	Dollars	*Percent*
Revenue	78,370	100
Cost of goods	63,480	81
Gross margin	14,890	19
Cost of business	8,410	11
Net margin before refunds	6,480	8
Refunds from suppliers	220	*
Net margin after refunds	6,700	8

* Less than one percent.

Table 8—Costs to market animal health products, local one (FA-1) of federated regional A, 1986

Cost items	Percentage of total costs	Percentage of total revenue
	- - - - *Percent* - - - -	
Payroll and related costs	42	4.5
Advertising	4	.4
Promotions	3	.3
Travel	1	.1
Other costs	50	5.4
Total	100	10.7

About 110 of FA-1's members buy AHP (versus 155 who buy feed) and farm within 700 square miles of FA-1. Thus, on average, this local had one AHP customer for every 6 square miles of trade area. It sold $710 of product per AHP customer and $112 per square mile. The territory contains one town of any size (3,400 population). FA-1 conducts business from a town numbering 1,000 population.

FA-1 supplies little more than 15 percent of the AHP sold within its geographic market. In doing so, it faces about 20 competitors. A cooperative in a neighboring town is one of two competitors selling AHP and farm supplies from route trucks. Other competitors include three discount stores within back-haul distance of FA-1, veterinarians, mail-order suppliers, and other retailers.

The local sells much AHP for on-the-farm mixing with feed, but very little for dairy cattle, having relinquished this segment of the market to the neighboring cooperative. Shares of total AHP sales were distributed as follows: swine related products, 90 percent; products for beef cattle, 7 percent; and products for other species, 3 percent. FA-1 handled no AHP for horses and small animals.

In 1986, AHP marketing centered around a team composed mainly of FA-1's feed mill manager, self-taught in AHP, and one of FA's outside fieldmen who has a bachelor's degree in animal science. The mill manager is in his early 30's, has managed the mill since

1979, and has close to 10 years of sales experience, all of it partially devoted to AHP.

In marketing AHP, the manager promotes a product/service package at competitive prices. He stresses friendship as well as business with all patrons. He tries to provide a one-stop shopping center for nutritional and health needs of livestock and be a leader in anticipating patron demand, whether disease control or new products. He reads extensively and asks TR's many questions in trying to stay ahead of patron needs. The manager treats each employee as a salesperson and encourages them to know the AHP line.

Selling

FA-1 began to sell AHP aggressively after the present feed mill manager took over in 1979. He is proud that AHP contributes twice as much to FA-1's net margin as it does to total revenue. He gains most of his sales through a "buddy" approach in the confined, dusty, and somewhat cluttered office of the feed mill. Here, patrons purchase 75 percent of their AHP. About 10 percent of the sales occur in sales meetings, 10 percent on farms, and 5 percent by mail.

The main reason patrons come to the office is to buy feed. On the other hand, a sizable portion of the 40 patrons who come by on a typical day (perhaps 50 in the spring), according to the manager, do so simply to briefly escape the hardships of farming, making small purchases as an excuse for being there. Still others drop by just to talk. The manager insists on all mill employees making time available to talk to customers. This type of selling extends to the 30-minute coffee break at the local coffee shop each morning. The mill shuts down, and employees socialize with farmers. While few orders are taken, the basis for many future orders is established.

When a patron comes through the door of the feed office, he enters 310 square feet of positive atmosphere geared toward merchandising OTC products and feed additives, subtle though it may be. The counter, the focal point for both patron-employee conversations and product displays, faces the outside door, jutting out from the left wall about 8 feet. The display area includes shelves of products along the right wall and a one single-door refrigerator further back next to the manager's desk.

The sales counter displays a small principal P.O.P. display, usually only a few boxes or bottles on the right end. Sometimes a mobile is suspended from the ceiling. Featured products are new to the market or appropriate to the season of the year. Similar products are displayed on shelves under the counter facing customers, while other featured products are placed about eye level on shelves along the right wall.

FA-1 puts a sizable effort into onfarm selling. Its people made upwards of 750 calls on farmers during 1986, an average of seven per AHP customer. FA-1's onfarm salesperson made at least 600 of these calls; the mill manager made the rest, taking 5 percent of the manager's time and 40 percent of the onfarm salesperson's time. Only 5 percent of the time spent in selling on patron farms was devoted to AHP.

These selling efforts were supported by feed truck drivers, who are trained to notice AHP needs, alert the proper people, and put in a good word for FA-1's AHP. They perform a valuable sales service, since they are on patron farms often. They deliver 15 percent of the OTC animal health products. The balance is sold f.o.b. at the mill. Very few AHP orders receive special deliveries.

Purchasing

FA supplies only about 30 percent of FA-1's purchases, despite the fact that the local partially owns FA and has a contract to mill its feed. Two alternative sources supplied nearly 60 percent of FA-1's needs, while a fourth distributor supplied the remainder.

The local feels it needs alternative sources of AHP to ensure availability. It is not convinced that FA can always supply product when needed, especially vaccines during the high-use period. Besides, the alternative suppliers have serviced FA-1 satisfactorily for several years.

The local also gives alternative suppliers enough business to buy as cheaply as possible. On all major purchases, the manager simply checks the latest prices, determines the best offer, and orders product. This helps him maintain margin, especially on products used in on-the-farm mixing of feed. In the process, the manager takes advantage of all distributor bookings and other sales events. In 1986, FA-1's buying practices, according to FA's product manager, enabled FA-1 to save 7 percent on the average price it paid FA for its AHP, compared with that paid by all of the regional's locals. Like CR-2, the local's price is also partially influenced by heavy purchasing of biologicals and other low margin AHP.

In 1986, FA-1 received 85 percent of its purchases via UPS, even though one supplier operated a route truck and could satisfy on-the-spot orders. This supplier also made telephone contact almost weekly and

routeman contact every 3 weeks. FA's deliveries took from 42 to 48 hours; and while adequate, another distributor could deliver in half this time.

FA-1 stocked an average of $19,800 AHP; thus, its inventory turned over three times during 1986. Reordering was initiated informally as the manager sensed a need, often aided by supplier suggestions.

Pricing

The local prices AHP as competitively as possible. Prices are always quoted with the prices of competing discount stores in mind, especially those at a meatpacking center from which patrons buy when delivering livestock.

Advertising

FA-1's expenditure on both advertising and promotions, including salaries and direct charges, probably wasn't as much as its selling costs. In 1986, direct charges for advertising AHP equaled a little over half the total spent directly on advertising and promotion.

Advertising focused on weekly items in the local newspaper and fliers which FA-1 mailed to farmers. Almost all of the advertising expense went to the newspaper, with 70 percent of the total spent on a 6-week spring campaign featuring fly controls. The manager worked with newspaper people to modify copy received from FA and another supplier to develop this series of advertisements.

The remaining 30 percent spent on newspaper advertisements was invested in small weekly items over the remainder of the year. FA-1 did not intensify its advertising for fall and winter products, failing to follow through on FA's special sales events except for sale prices on a few items.

The local bolstered its newspaper advertising somewhat in 1986 by making two mailings to about 150 farmers. A spring mailing prepared by the manager coincided with special newspaper advertisements featuring fly controls and heightened farmer interest in these products. One in December was written by FA's animal health department and featured winter products. This mailing was free, because FA-1 met minimum order requirements. Both mailings were attached to customers' monthly account statements.

Promotion

Two sales dinners were the substance of FA-1's AHP promotions in 1986. One piggy-backed AHP on to the featured product, feed. The second featured a line of AHP. TR's from both FA and an AHP manufacturer made presentations. About 50 farmers attended.

Passing along supplier incentives, such as a set of pliers, was the only other promotional activity in which FA-1 engaged in 1986. The manager neither supports fairs nor offers booking programs. During 1986, he didn't believe that most farmers could afford to hold inventory, especially if they were uncertain whether they would need the products.

Strengths in AHP retailing

Nine components of FA-1's program for retailing AHP are relatively outstanding. These components are: (1) strongly motivated product manager, one who is responsible for a profit center (a feed mill and related activities) and has a moderate level of marketing experience, (2) close tie between AHP and feed in selling activities, (3) AHP treated as a primary line of products, (4) very aggressive buying practices, using several suppliers and paying relatively low prices, (5) close control of costs, evidenced by low payroll costs, a very high rate of revenue per man-year, and a fairly high turnover rate on inventory, (6) strong selling effort, suggested by seven onfarm visits per AHP customer per year, and an understanding approach to instore selling, (7) significant use of FA, mainly for help with onfarm selling, (8) reasonable selling prices, indicated by a gross margin of 19 percent, and (9) reasonable level of patron satisfaction, indicated by a 15-percent share of market despite severe competition.

Retailing by FA-2

FA-2 is the farm store of a farm supply cooperative that has sold fertilizer, chemicals, and feed since the mid-1960's. It originated as a petroleum and hardware retailer in the early 1900's. In 1987, it earned $69,000 from AHP sales through three locations: the farm store, a satellite store, and a town store for pet AHP. Revenue from AHP accounted for only 1 percent of the cooperative's total, which was dominated by petroleum, agrichemicals, and feed, with respective percentage shares of 47, 28, and 12. The local generated an annual income of $5.3 million and

Table 9—Margins from the sale of animal health products, local two (FA-2) of federated regional (FA), 1987

Item	Volume	Percentage of revenue
	Dollars	*Percent*
Revenue	40,430	100
Cost of goods	32,340	80
Gross margin	8,090	20
Cost of business	4,440	11
Net margin before refunds	3,650	9
Refunds from suppliers	230	1
Net margin after refunds	3,880	10

Table 10—Costs to market animal health products, local two (FA-2) of federated regional (FA), 1987

Cost items	Percentage of total AHP cost	Percentage of total FA-2's revenue
	- - - - *Percent* - - - -	
Payroll and related costs	53	5.9
Route truck	16	1.8
Travel	4	.4
Advertising	3	.3
Promotion	2	.2
Other costs	22	2.4
Total	100	11.0

employed 29.8 persons.

This study is confined to the farm store (FA-2) that sold most of the cooperative's AHP and operated a route truck. FA sold $40,430 of AHP (3 percent of the store's total 1987 revenue), generating a gross margin of 20 percent, the third highest in the study, and a net margin of 10 percent, the highest in the study (table 9). Six percent of the AHP net margin came from supplier refunds.

FA spent $4,440 to market AHP, mostly for payroll expense equaling 5.9 percent of revenue (table 10). Payroll costs covered 0.13 man-year of effort or 2 percent of the store's total employment (5.8 persons), and yielded $311,000 in AHP revenue per man-year.

The store serves about 400 customers, most of whom are dairymen and hog producers. With one medium-size city and a large metropolitan area just outside its territory, many of FA-2's customers are part-time farmers; and 10 percent of its AHP is purchased for horses and pets. However, there is still much agriculture within FA-2's geographical market; and 50 percent of AHP is purchased for dairy cattle.

A total of 290 patrons buy AHP; thus, the store's revenue from these products averaged $139 per customer. It also averaged $40 per square mile of prime market area (1,000 square miles within its prime area and 2,500 square miles within its route truck's coverage). On average, FA-2 had a little over 3 square miles of trade area per AHP patron.

FA-2 accounts for about a tenth of the total AHP sales within its market, facing stiff competition from 20 retailers. Most important are three farm supply stores within its hometown, three discount farm supply stores within a radius of 40 miles, and three dairy equipment outlets that operate route trucks.

Prior to 1987, FA-2 emphasized petroleum, fertilizer, and agrichemicals. Later it added feed and dairy supplies which complement milking equipment. Now, AHP are receiving more emphasis; but is still treated as a secondary product line, compared with feed and dairy supplies.

The store manager directs a marketing team of three. It includes an onfarm salesperson (a young man with a degree in animal science who works 2 days a week), a young route truck driver with little background in AHP, and the store manager himself. The manager is between 20 and 25 years of age and has had 2 years of college agronomy and 6 years of sales experience. The manager took over fertilizer and agrichemicals in 1983; feed in 1984; AHP in 1986; and milking equipment, dairy supplies, and route truck in 1987. The manager uses a free-standing personal computer extensively.

The cooperative's manager since 1981, a person of 40, supports the store manager. However, FA-2's manager operates somewhat aloof from FA; therefore, FA-2 does not place a heavy reliance on the regional's marketing plan for AHP. For example, it generally avails itself of FA's bookings and special prices, but seldom follows through on its suggested advertisements.

Onfarm Selling

With 1.4 persons specializing in onfarm selling, from four to five times as much effort went into onfarm selling as into instore selling. FA-2, with some 4,000

onfarm sales calls, made the second highest number of calls of any cooperative in the study. Onfarm visits were divided as follows:

Supply route truck	3,000
Onfarm salesperson	800
Farm store manager	200

Total equals 14 visits per AHP patron annually, excluding onfarm calls to service milking equipment.

Selling by Routeman–FA-2 placed a route truck into service in January of 1987; and during the first year, it and the service van generated a tenth of the AHP revenue ($4,000) and sold $66,000 of supplies (mostly dairy supplies), $60,000 of milking equipment parts, and $21,000 worth of service. Most of the income from the last two items were generated by the route truck before the van was added in August. After that, the route truck became the sole vehicle for selling and delivering AHP and supplies.

The route truck may be viewed as either a large, mobile P.O.P. display or a small mobile store. Products are neatly arranged on shelves and in bins along the interior walls, accessed through either the cab or the rear of the truck. It is well stocked when it leaves the store about 8 o'clock each morning Monday through Thursday.

The driver calls on about 15 farmers each day along one of 20 routes established within FA-2's trade area. The driver calls upon 280 farmers every 5 weeks, leaving whatever products are ordered. Usually farmers leave orders in milking parlors. This means that FA-2 extends at least 5 weeks of credit on route truck orders, an especially favorable deal since prices are the same as at the store.

The routeman tries to talk to each farmer to see if anything else is needed, such as a featured product not listed on the order blank. If the farmer is not available, the driver simply leaves product literature, an order blank, and a price list. Initially, many farmers were pleasantly surprised with the amount and variety of products carried on the route truck.

Selling by Other Store Personnel–FA-2's on-farm salesperson, supplied by FA, gives 2 days per week to farm store patrons. At the beginning of each day, the manager supplies salesperson with a list of eight farmers to receive the salesperson's special attention. The list, identifying farmers with special needs, is developed from careful records on feed and AHP use gained from previous visits. Using this information and the dates of these visits, the manager's computer quickly prints out candidates for farm visits.

The onfarm salesperson spends most of the time servicing patron needs for feed, but he also shares information about new AHP, special prices, and so forth. Being service oriented and encouraged by the manager, the salesperson often spends an hour helping farmers do special work with their livestock. The salesperson never delivers a product and seldom takes an order. Except for the routeman, the onfarm salesperson is the only store employee that visits patron farms to promote feed and AHP from April to September.

During these months, FA-2's manager rarely ever leaves the store, devoting almost all the time to patron fertilizer and pest-control needs. During the remaining months, the manager makes a few onfarm visits, usually in response to a specific need or to maintain and improve patron relations.

Instore Selling

Despite a major onfarm selling effort, about 90 percent of FA-2's sales of AHP in 1987 were ordered and picked up at the store. This portion is expected to decline as farmers make increased use of the route truck.

Selling is done at a fairly new and well kept store, part of a farm supply center near the city limits. It is about 1.5 miles from the center of town, the location of FA-2's home office, and the store's nearest highway. The store opened in 1965 as a fertilizer center.

Except for temporary assignments, only the store manager and one other person sell AHP at the store. Employees take most of the customers' orders from one small counter at the front of the store. The manager cares for the overflow and for patrons with special needs from another counter that forms one wall of his office. Patron traffic averages about 60 persons per day during the spring.

No more than 18 feet square, the cramped showroom is like one big P.O.P. display. It has space for only one four-shelf, double-sided counter in the middle, which mainly stocks AHP. Teat dip and other dairy supplies (case lots) are stacked along the right wall. There is a single-door, lighted refrigerator on the left wall. Next to it are shelves which display dairy supplies and miscellaneous products for other farm needs. Because of limited space, mobiles, signs, and product leaflets are the only P.O.P. displays used.

Purchasing

FA-2 spends relatively little time on purchasing decisions. Although the store has complete freedom in choosing suppliers, it is a partial owner of FA and has bought AHP from it for many years. In 1987, the store purchased 90 percent of its AHP from this regional.

In checking the prices of alternative suppliers from time to time, the manager has found FA's prices to be in line with the competition. The store's manager generally pays careful attention to presentations by FA's TR and telemarketers about special prices and bookings, even though stringent requirements prevent him from buying under all of them. Nevertheless, he makes up as many large orders as possible, thereby lowering the cost of goods. Overall, however, the manager's purchasing activities yield him no better prices from FA than the average received by the regional from all of its locals.

FA-2 keeps tight control over its AHP inventory. This is relatively simple, since most of the products are at the fingertips of the manager and routeman at all times. To prevent being out of necessary products, the manager inspects inventory weekly. Inventory included about 220 AHP, averaged $6,740, and turned over nearly five times in 1987.

The store limits its product line by handling only one product of those with duplicate functions. The store's truck frequently picks up AHP from FA's warehouse (60 miles away) when it picks up feed nearby. On the other hand, FA issues many back orders, and the store must stock at least 2 months of inventory to ensure having adequate stock.

Pricing

The store manager prices all AHP a little above competing discount stores, receiving little guidance from FA. The store's manager maintains prices unless competition dictates otherwise. The manager realizes that price changes require careful judgment; and there is a limit to how far advantages of loyalty, favorable store location, and sound advice can be stretched. The manager also realizes that many products are generic and readily available from other sources.

Some of these products carry only a 10-percent margin. But fortunately, FA-2 also handles other products that help raise the average gross margin. The store manager prices all AHP.

Advertising

The store spent only 60 percent of its AHP advertising/promotion budget on advertising, almost entirely limited to the cost of mailing four fliers to 250 farmers. FA developed one of these fliers; FA-2 qualified for it by purchasing a required amount of AHP.

FA's parent local mailed 4,000 copies of its monthly magazine, but any benefit from this magazine is very indirect. FA also advertised hardware regularly on the local radio and in the local tabloid, frequently including multipage inserts. These efforts had little effect on AHP sales, other than keeping customers aware that the store existed. FA-2 hasn't succeeded with local advertising, so it didn't even announce its new service when it placed the route truck and service vans in operation.

Promotion

The largest share of FA-2's small promotions budget was spent on sales dinners, with limited success. For instance, the store and three neighboring cooperatives supported a special sales event organized by FA. It was well supported by suppliers, and featured several product presentations between 9:30 a.m. and 3:00 p.m., with a lunch break at noon. Response was poor because the event competed with harvest time and nice weather; so only a third of the expected number came, including 10 of FA-2's patrons.

Four evening sales dinners sponsored by FA-2 were more successful. Two featured AHP presented by their manufacturers' TR's. The latter two dinners were held in November and January, with an average attendance of 15 farmers, still less than desired. FA-2's manager believes he faces a cultural barrier that prevents greater attendance, for the satellite store achieves higher turnouts.

On the other hand, FA-2 enjoyed considerable success with its customer appreciation day. About 450 patrons came to FA-2's sparkling clean warehouse for an evening barbecue prepared by the local pork producers association. Most of the cost was charged to fertilizer and other farm supplies. No selling accompanied this event.

Two additional events completed FA-2's promotional efforts for 1987. One was an all expense-paid trip for one of the local's patrons to FA's research facility. The other was the funding of awards at special

dinners for three county dairy herd improvement associations.

FA-2's Strengths in Retailing AHP

FA-2 exhibits six strengths in marketing AHP. They include: (1) a very strong motivation to succeed and exceptional follow-through on the part of the product manager, who is also the store manager; (2) a very strong general selling effort with an onfarm salesperson, a route truck, and onfarm visits averaging 23 per AHP customer per year; (3) considerable patron satisfaction, evidenced by a 10-percent share of the AHP market despite severe competition; (4) a close tie between AHP and feed and dairy supplies; (5) close control of costs, indicated by relatively low payroll costs, a high rate of revenue per man-year, and a fairly high turnover rate on inventory; and (6) a heavy use of FA support, mainly for on-farm selling and as a source of AHP.

FEDERATED REGIONAL COOPERATIVE B

FB-1 and FB-2 are but two of 79 independent local cooperatives that own Federated Regional B (FB), a regional cooperative like FA that wholesales farm supplies. These locals rely on FB for most of their AHP and many of their other needs. The 2,500 customers of the two locals are only a small portion of the 73,000 patrons that use FB's products throughout its trade territory of 40,000 square miles.

FB's revenue from OTC animal health products reached $5.25 million in 1986, averaging $131 per square mile of territory and $66,400 per local.

FB earned a gross margin of 15 percent and net margin of 6 percent after refund on its sales of AHP (table 11). It incurred costs equal to 11 percent of revenue, but these were partially offset by refunds and commissions equaling a little over 2 of revenue and 60 percent of net margin. Important costs ranked as follows: payroll, distribution, promotions, travel, and advertising.

Sales included at least 850 AHP. Important categories, by end user and according to percentage of revenue, ranked as follows: beef cattle, 31; dairy cattle, 30; swine, 20; horses, 12; small animals, 5; and others, 2.

Table 11—Revenue and costs from wholesaling animal health products, federated regional cooperative B (FB), 1986

Item	Percentage of revenue
	Percent
Revenue	100.0
Cost of goods sold	85.3
Gross margin	14.7
Costs of business	
Payroll and related costs	(1.8)
Distribution	(1.6)
Promotion	(.3)
Travel	(.2)
Advertising	(.1)
Other	(6.7)
Total	10.7
Net margin before commissions and refunds	4.0
Commissions on direct shipments	2.1
Refunds on advertising and promotions	.3
Net margin after commissions and refunds	6.4

Wholesaling

The AHP department provides the main thrust for AHP sales. It is headed by a seasoned product manager who has held the position since 1971. The manager has a very keen interest in AHP and operates with considerable autonomy, which enables the manager to quickly seize marketing opportunities. Assisted by a marketing manager, he is fully accountable for marketing AHP. These two men, their secretary, and seven TR's comprise FB's AHP marketing team.

TR's sell both AHP and feed, spending only 5 percent of their time on AHP. Nevertheless, they devote more total effort to selling these products than the AHP department. Each covers about 5,700 square miles and serves an average of 11 locals, visiting each from two to four times monthly. During these visits, the TR's make many calls on farmers, some devoting 40 percent of their time to this activity. TR's are the prime force in helping locals set up sales meetings and product demonstrations.

According to the product manager, FB's share of the AHP market is 65 percent. FB competes with 10 other wholesalers and a number of mail-order houses. To maintain its market share in 1986, the regional's marketing team expended 3.8 man-years in addition to the monetary outlays mentioned above. AHP revenue averaged $1,381,000 per man-year.

The AHP department accounted for half of the manpower marketing expenditure and the feed and marketing Departments for about a quarter each. Sales claimed the largest portion of expenditure, with the balance fairly evenly divided among advertising and promotion, buying, and pricing.

Selling

The AHP department's most important selling effort involves the support its professionals give TR's and the employees of locals. The professionals spend from 1 to 1.5 days in the field each week, much of it devoted to sales events at monthly meetings of the TR's and local managers. These men also encourage local sales-promoting activities through numerous visits with store personnel as they travel to and from meetings. The selling effort is enhanced by FB's relatively small geographic market.

The AHP department's second most important selling effort revolves around major retail sales events in March and September. These events feature 15 to 20 fast-moving AHP, and run for 10 to 15 days. Sales featuring fewer products are held during the remaining months.

The department tries to keep AHP margins reasonable, strengthen the locals' marketing efforts, and enhance their feeling that "If FB has a product, FB is the place to buy it." The department builds on FB's intent to serve all farmer needs.

Promotion

FB conducts two major booking programs about 2 months ahead of its sales. Prices on featured items are dropped about 10 percent, allowing the locals to reduce their's by at least that much.

Besides being an opportunity to purchase AHP for lower prices, the fall booking features a product show and expressions of FB's appreciation of local employees. The event is held at a State park over a 4-day period. Four groups of local employees, averaging about 80 persons each day, arrive for this all-expense-paid event, converse with suppliers, buy merchandise, and enjoy recreation activities. In 1986, the product show featured 40 suppliers; and accounted for about two-fifths of the regional's total AHP promotion costs, most of which was covered by fees paid by suppliers.

The January booking is less publicized, is handled through the TR's, and is offered to local managers during their December meeting.

Altogether, booking programs accounted for a little more than 20 percent of FB's 1986 AHP revenue. At least 10 local cooperatives have copied FB's techniques, some in conjunction with their own trade shows and some featuring AHP only.

In addition to its booking programs and sales, FB engages in four other promotional efforts important to its marketing program. (1) It subsidizes locals' dinner sales, averaging at least one per local in 1986 and costing about $2 per plate. (2) The regional provides about 40 key employees of local associations a 4-day trip each year to some major research facility to learn more about AHP. Because of the opportunity to travel, local employees value this experience as a performance incentive as well as a training activity. (Key employees will be discussed further.) (3) FB recently encouraged its locals to install lighted, display-type AHP refrigerators by supplying them at very low cost. As a result, FB's locals now reportedly offer the widest variety of biologicals among retailers within the regional's market. (4) FB supplies its locals with sales premiums knife sharpeners, first aid kits, caps, jackets, and so forth, amounting to about 40 percent of the regional's promotion costs, mostly covered by supplier refunds.

Advertising

FB advertises AHP at the retail level, thereby helping its local associations maintain and increase customer demand for these products. The regional confines most of this effort to monthly advertisements in its 24-page tabloid published by the marketing department. FB advertises, using three-color centerfolds, all products featured in the spring and fall sales. In addition, at the request of locals, the marketing department will edit, print with a standard format, and mail two-sided monthly fliers written by the locals for postage cost only.

FB's second largest advertising expense is for printed matter distributed to TR's, key employees, and other interested persons. It takes two primary forms. One is a photocopied flier, an information/promotion piece of from 1 to 4 pages covered by the AHP department's budget. It is mailed irregularly, but at least once a week. This flier provides product information, cites price changes, and gives market news. The product manager thinks this may be his best mode of advertising. It keeps the field staff informed and helps maintain marketing momentum.

FB also circulates concise statements about AHP

in a flier issued monthly by the marketing department. These statements, which take up about an eighth of each 3.5- to 4.0-page flier, usually contain some of the same information found in the AHP department's flier, but focus on marketing tips.

Finally, the FB incurs a small cost for advertisements in magazines of livestock producer associations, its 15-page booklet on species health programs, and miscellaneous items.

Altogether, advertising and promotions cost FB $647 per 1,000 square miles of trade area and $6,800 per man-year of effort.

Purchasing

Purchasing requires a large portion of the AHP department's time. Competitive buying is viewed as basic to the regional's success in servicing its locals and their patrons. FB relies on about 60 manufacturers and distributors of AHP, availing itself of as many of their bookings and special sales events as possible. It also uses a full range of suppliers when placing large orders for AHP because suppliers seldom deviate from published prices. However, the regional frequently induces suppliers to supplement purchase orders, thereby reducing the real price of AHP.

FB warehouses AHP at three general-purpose distribution centers very conveniently located within 65 miles of most locals. Consequently, the locals pick up 70 percent of their AHP purchases, many using their own tractor trailers. In 1986, FB carried an average inventory of $741,000, which turned over six times during the year.

Pricing

FB believes it is the price leader for AHP within its geographic market. It issues price lists monthly that reflect the same pressures experienced by product managers in other regional cooperatives. However, FB probably feels less pressure from its locals to reduce prices because of four factors. (1) It does not increase gross margins on manufacturers' bookings, allowing locals the full benefit. (2) Locals purchase booked products heavily. (3) No margins are added to direct shipments under special programs offered by a couple of suppliers. This action is justified by savings in warehousing costs and enhanced net margins. (4) Locals loyally accept some relatively high prices in appreciation of FB's support.

Other Support Activities

In addition to FB's direct support of local associations through its AHP marketing program, FB indirectly supports the retailing of AHP by FB-1, FB-2, and other locals. First, it aggressively promotes feed sales in an attempt to maintain a large market share, thereby giving AHP sales a complementary boost.

Second, through its marketing department, FB helps recruit and supervise onfarm salespersons for the locals. In 1986, 22 such individuals worked for 26 locals, with FB paying 30 percent of their salaries. The regional seeks to heighten the salesperson's motivation through quarterly meetings and by making the marketing department's manager available for personal visits with each of them every 6 to 8 weeks. One drawback to these salespersons is that they sell all types of farm supplies, not being restricted to feed and AHP like their counterparts with FA.

Third, FB identifies key employees with each local cooperative as product specialists. They receive special encouragement and marketing support from FB's marketing manager and respective product managers. They receive special marketing information mailed to their homes, and are informed about all timely subjects at their monthly meetings.

Fourth, FB teaches local employees how to market AHP through both formal and informal programs. The regional provides about 3 hours of instruction during its annual feed school, to which 68 locals sent 350 employees in 1986 at FB's expense. FB trains its TR's at their monthly meetings and the TR's, in turn, train local employees at special meetings; with some TR's putting on 40 such meetings in a year. Moreover, TR's supplement this training through informal meetings with local employees during frequent calls on the local associations. Finally, FB administers formal training for local managers and other employees in all aspect of business, much of which is applicable to retailing AHP.

Fifth, the regional supports locals in their retailing of AHP by providing them with a range of general business and consulting services, including risk management, financial accounting, merchandising, marketing information, and operational controls. FB is particularly supportive by installing a state-of-the-art, full-service information management system to supply several of these services. Services contribute to the overall well-being and economic health of FB's local associations, enabling them to more effectively retail AHP and generate patron savings from these products.

Retailing by FB-1

Retailing by FB-1 is one of two examples of this activity within FB's federation. FB-1 has sold AHP since 1951, 3 years after it was organized. Its beginning with AHP was humble–a single shelf and a used household refrigerator. In 1986, FB-1 sold $120,500 of AHP, earning a gross margin of 25 percent and a net margin of 5 percent (table 12). These are consolidated results for the main store and a satellite store about 10 miles away. The satellite sold about 8 percent of the local's AHP.

AHP equaled 2 percent of FB-1's total revenue of $5.28 million. Its contribution was small, compared to feed sales of $856,000, part of a full line of farm supplies. FB-1 invested 0.8 man-year of effort in marketing AHP, nearly 3 percent of the local's total employment of 31 persons. This resulted in revenue of $151,000 per man-year (the lowest rate in this study) and a relatively high salary cost of nearly 14 percent. Other principal costs included the following: advertising, promotions, and travel. (See table 13 for their percentages of revenue.)

The local serves 1,350 members and 1,200 AHP customers that include 800 farmers. The average customer purchased $100 of AHP. The local's trade area covers 1,100 square miles, meaning the local had an average of a little under 1 square mile of trade area per AHP customer, and generated $110 of AHP revenue per square mile of territory.

The product manager believes that FB-1 has a 60-percent share of the AHP market, despite the fact that the cooperative faces at least 11 competitors. One is a milk marketer that sells AHP from its milk trucks; three are farm stores; three are mail-order houses; and four are large-animal veterinarians. The total excludes 10 small-animal veterinarians.

The milk marketer has made FB-1 something of a residual supplier of AHP for dairy cattle. Only 10 percent of FB-1's AHP is sold for dairy cattle, while 20 percent of its feed is sold for these animals. In 1986, AHP sales for other types of animals were distributed as follows: beef cattle, 40 percent; swine, 20 percent; horses, 20 percent, pets, 8 percent; and other, 2 percent. The thrust of FB-1's marketing is towards beef cattle and horses, principal interests of the product manager.

FB-1's product manager carries most of the responsibility for developing and executing the local's AHP marketing program. The product manager is advised by the two store managers and the general manager, and receives selling help from three in-store salespersons. The product manager is about 30 years of age, has a degree in animal science, and has 6 years selling experience, but only 2 with AHP. The product manager took charge of AHP in 1984. The general manager, between 40 and 45 years of age, assumed present position in 1978 after having been one of FB's product managers.

The local's management considers AHP a necessary product line. It believes that livestock production requires good animal health as well as proper nutrition. Management tries to meet both of these needs, believing that AHP can prevent many health problems and that patrons should be treated fairly.

The product manager relies heavily on FB's marketing program and makes much of it her own. In other words, FB's sales events (especially those associated with bookings) stimulate FB-2's events and selling.

Table 12—Margins from the sale of animal health products, local one (FB-1) of federated regional (FB), 1986

Item	Volume	Percentage of revenue
	Dollars	*Percent*
Revenue	120,500	100
Cost of goods	90,380	75
Gross margin	30,120	25
Cost of business	24,230	20
Net margin before refunds	5,890	5
Refunds from suppliers	420	*
Net margin after refunds	6,310	5

* Less than one percent.

Instore Selling

Most of the time FB-1's employees devote to AHP is focused on selling, and most of that is done within the store. For example, the product manager devotes four times as much effort to inhouse selling as to onfarm selling, and the ratio is higher for the other principal employees. The local does not employ an onfarm salesperson. Patrons come to the local's two showrooms to personally place 70 percent and pick up 90 percent of their AHP purchases.

During the spring, the daily flow of cooperative

customers peaks at 650 and averages around 500 patrons, according the product manager. During the winter months, the number averages around 300, of which 150 are farmers and 120 are women. Most of these customers go to an attractive semi-modern building (built in 1969) near a major highway on the edge of town. It houses the main showroom, offices, and a warehouse. It is part of a complex that includes a fertilizer facility, a petroleum station, and a car-care center.

Numerous women customers testify to the main store's attractiveness. It is designed for self service, has wide aisles, displays merchandise cleanly, is well lighted, and generally exhibits good housekeeping practices. Unique among the stores studied is its use of numbers to designate different product lines.

All main store transactions occur at a 25-foot long counter along the back wall of the showroom. It features four personal computers, which function as point-of-sale registers tied into FB's full-service computer system to speed checkout procedures.

The order counter straddles a wide aisle through the center of the showroom, so it is visible from the front entrance. Behind it and to the left end stands a double-door AHP refrigerator with a brightly lighted sign. It marks two 20-foot long aisles and 500 of the store's 5,000 square feet devoted to AHP. The satellite store allots 80 square feet to AHP, and equals the main store in attractiveness.

FB-1's main store uses P.O.P displays to good advantage, always featuring one large display prominently. The exhibit is changed monthly, often using the suggestions of FB's marketing department. One recent display involved baby pigs in a product demonstration. It was part of an all-encompassing sales event involving sales dinners, incentives, and so forth. FB-1 also makes use of incentives such as free wallets, whetstones, and so forth.

Table 13—Costs to market animal health products, local one (FB-1) of federated regional FB, 1986

Cost items	Percentage of total AHP cost	Percentage of total FB-1's revenue
	- - - - Percent - - - -	
Payroll and related costs	69	13.8
Advertising	7	1.4
Promotions	3	.6
Travel	1	.2
Other costs	20	4.1
Total	100	20.1

Onfarm Selling

Even though FB-1 does not employee a specialist in onfarm selling, its patrons received about 800 onfarm visits during 1986, with perhaps 40 focusing on AHP. This total means less than one annual call per farm, although many patrons receive none. Nearly 20 percent of the total visits are made by the TR from FB, who works FB-1's territory a couple times each month.

Managers and instore salespersons make the remaining onfarm calls, focusing on FB-1's top 200 farmers, those with the largest purchases, according to current computer records. The patrons are divided equally among the staff personnel according to the most compatible patron-staff relationship. Product manager makes less than 50 onfarm calls per year.

Each employee that participates in this program visits each patron about three times per year, two onfarm calls concentrated into the summer months when farm activity slackens. Remaining visits follow during the remainder of the year, often in response to telephone calls.

Management is pleased with both the employees' willingness to devote a few evenings to telephoning assigned patrons and the patrons' receptivity to the program. Cooperative personnel sound out patron attitudes toward the cooperative, listen to complaints and suggestions, and share information with the patrons.

Pricing

FB-1's product manager prices AHP with only minor assistance from other managers, spending only a modest portion of her time on this activity. She normally accepts FB's suggested retail prices, perceiving FB's marketing team as representing the price leader of AHP, offering competitive prices and working hard to achieve this result.

The product manager visits competing stores and otherwise monitors competitor prices, adjusting her own when necessary. According to the product manager, one of FB-1's main objectives is to sell products at reasonable prices.

Purchasing

FB's competitive prices largely explain why FB-1 purchases 90 percent of its AHP from FB, even though it uses four other suppliers for biologicals and products not handled by the regional, such as some products for horses. The local uses one of these suppliers, even though the supplier sells directly to large accounts.

FB-1 also buys most of its AHP from FB because the local regards the regional as a business partner that provides the local with much support. For example, this support allows FB-1's product manager, using a computer, to instantaneously determine the availability of AHP at FB's distribution centers; and it provides route trucks to deliver products. The trucks stop at FB-1 every Tuesday to deliver orders placed as late as noon on Monday. The local appreciates the convenience of this service, and believes it is less expensive than providing the service itself. FB-1 is also mindful of the patronage refunds paid by the regional.

The product manager places a third of the local's AHP orders under FB's booking programs, a majority during the fall product show and booking. She buys 5 percent in response to FB's sales events, but most of the volume is purchased without the benefit of special prices. About one-third of the orders are written, while more than half are placed by computer.

Overall, FB-1's buying practices may typify all of FB's locals, for FB's product manager believes that FB-1 pays about the same prices for its AHP as the other locals.

Computerized records of inventory levels and year-to-date sales are used in determining orders. This is especially true of the large orders placed under FB's booking programs. Some orders will provide enough product to last a year. Five percent of total AHP purchases are drop shipped by suppliers, 70 percent are delivered by FB's route trucks, and the remainder are picked up by FB-1's trucks.

Inventory

FB-1 stocks about 550 AHP valued at $37,700 in 1986. The cooperative's average inventory turned a little more than twice during the year. This was one of the lowest turnover rates among the local cooperatives in this study, despite computerized monitoring. The low turnover may be partially explained because some large purchases were made to fill 12 months of demand and usage was down because of good weather.

Advertising

About half of the advertising budget was spent on insertions in the local daily newspaper. Quarter-page layouts advertising the spring and fall sales represented the largest expenditure. The remainder purchased small weekly advertisements in the Monday edition. Some featured special prices, but many were designed simply to keep patrons aware of FB-1's line of AHP.

Mailing costs accounted for most of the remaining half of FB-1's advertising expenditure, divided about equally among three outlays. The first was monthly fliers written by the product manager, but edited and mailed by FB's Marketing Department. In 1985, FB-1 became the first FB local to issue its own flier. It is well received, according to the product manager, with patrons anxious to receive each issue. She believes it is FB-1's best advertising tool.

The second outlay covers two special mailings devoted to AHP. The third covers the AHP share of FB-1's cost to mail FB's monthly newspaper. It heavily advertised the spring and fall sales of AHP.

Promotion

The promotions budget split almost equally between two sales dinners and two product demonstrations. The local invited dairymen to the first sales dinner. Thirty-five attendees heard presentations by FB's feed nutritionist, a State Extension specialist, and TR's from two manufacturers of AHP. The second dinner, a little later in the year, entertained 75 hog producers and included similar speakers. Both dinners were accompanied by product displays and special prices. Patrons were given a week to place orders. The local, FB, and AHP manufacturers shared costs equally.

The first of two demonstrations on treating beef cattle was held at a nearby agricultural college. The college furnished a large number of cattle, so attending farmers received much hands-on experience. About 60 cattlemen who attended received a light lunch as well as instructions and practical experience. A smaller demonstration was held on FB-1's parking lot. FB-1 paid about a third of the cost of these demonstrations.

FB-1 made a small outlay in support of 4-H Club activities, including sponsorship of a sheep show and cookout. The local held neither a patron appreciation day nor an AHP show, thinking they are not worth the effort and money involved.

FB-1's Strengths in Retailing AHP

Eight elements of FB-1's program for retailing AHP are relatively outstanding compared to the other retailers in this study. These elements are: (1) a highly motivated product manager with a college degree in animal science; (2) a large number of patrons who are relatively highly concentrated within FB-1's geographic market; (3) a high level of patron satisfaction, evidenced by a dominant share of the AHP market and resulting in an economical volume of AHP business; (4) relatively strong advertising and promotion efforts; (5) a large store with a sizable AHP display, plus more display at a satellite outlet; (6) excellent AHP displays and instore selling; (7) a heavy use of FB as a source for AHP and marketing; and (8) a modest rate of net return and potential savings for patrons.

Retailing by FB-2

FB-2 opened in 1950; in 1986 it sold $120,500 of AHP (table 14). This was up 40 percent from 1981, but down 16 percent from its 1984 peak. In 1986, the average gross margin on AHP was 17 percent and net margin was 1 percent. Supplier refunds accounted for 32 percent of the local's net income.

A low net margin is explained by a low gross margin and a high input of labor. Payroll cost was 11.5 percent of revenue for an input of 0.8 man-year, 2 percent of the local's employment of 46 persons. Revenue per AHP man-year was $151,000, one of the lowest rates for any retail outlet in this study. Other prime costs to market AHP were advertising, promotions, and travel (table 15).

FB-2 served 1,300 AHP patrons out of 1,800 members in 1986, meaning, on average, that the local sold $90 of AHP per patron. FB-2's trade territory covers 1,200 square miles, meaning that the local averaged a little under one square mile of territory per AHP patron and about $100 of AHP revenue per square mile of territory. Shares of AHP sales were distributed as follows: products for beef cattle, 60 percent; dairy cattle products, 20 percent; horse-related products; 10 percent; and products for other species, 10 percent.

The cooperative dominates the AHP market with a 60-percent share, even though it faces nine competitors. The strongest are a discount farm store and a milk marketer that delivers dairy supplies and AHP with its milk trucks. The remaining competitors include two regular farm stores, two veterinarians, and three mailorder houses.

According to FB-2's product manager, the cooperative, "... is known as the place to buy AHP. Patrons receive answers to their questions, and AHP are considered a vehicle to save patrons' money." AHP make up a primary product line for FB-2, with their sales driven by the general manager's philosophy, "If at the end of the day, I can't say I've helped at least one farmer, that day has been wasted."

The local's general manager, well established in the community, serves as a director of a local bank. He prides himself on FB-2's AHP marketing team. Though the team looks to the general manager on critical problems, it carries almost total responsibility for marketing AHP. The product manager is the key member of the team. He is about 40 years old and an FB-1 employee since 1981, which gives him only 5

Table 14—Margins from the sale of animal health products, local two (FB-2) of federated regional B, 1986

Item	Volume	Percentage of revenue
	Dollars	*Percent*
Revenue	120,500	100
Cost of goods	100,400	83
Gross margin	20,100	17
Cost of business	19,290	16
Net margin before refunds	810	1
Refunds from suppliers	380	*
Net margin after refunds	1,190	1

* Less than one percent.

Table 15—Costs to market animal health products, local two (FB-2) of federated regional FB, 1986

Cost items	Percentage of total AHP cost	Percentage of total FB-2's revenue
	- - - - *Percent* - - - -	
Payroll and related costs	72	11.5
Advertising	4	.7
Promotions	2	.3
Travel	1	.1
Other costs	21	3.4
Total	100	16.0

years in AHP sales. On the other hand, the product manager is an experienced buyer and an AHP enthusiast. He is assisted by the store manager, who assumed his responsibilities in 1979 and has 20 years of merchandising experience. Like his counterpart with FB-1, this local's product manager relies heavily on FB's marketing program.

Instore Selling

The local sells most of its AHP through the store, where 80 percent of the orders are received and almost all of them are filled. Built on 9.5 acres in 1973 with the help of FB's consultants, the store is just inside the city limits and near a main highway.

Four persons give part of their time to instore AHP selling. The local serves an average of 150 patrons daily, a peak of 300 during the spring months. It serves about 110 daily during the winter, 85 of whom are farmers. Employees wait on most farmers from a counter reserved for them along the back wall of the showroom. It is well identified by the words "FARM SUPPLIES" above it in bold, white, 16-inch letters. Nonfarm customers use a permanent island counter just inside the front door.

The AHP department is identified clearly by an "Animal Health" sign with red letters 18 inches high on the back wall to the immediate left of the farm supplies counter.

AHP's four-shelf displays begin next to a lighted, well-marked, double-door refrigerator and extend left for 30 feet. Shelves bearing AHP on a double-sided island are also located across an aisle from these displays. Altogether, AHP displays occupy 300 square feet within a large showroom of 4,000 square feet. Products are well stocked, cleanly presented, and neatly displayed. Aisles are wide, and the store provides a comfortable atmosphere. This is enhanced by a friendly "May I help you?" and a friendly cashier at the nonfarm counter.

A major P.O.P. display, standing midway between the two counters, is changed four times a year, with two displays featuring AHP. Historically, FB-2's P.O.P displays have evidenced a fertile imagination and attracted considerable attention. They have included a wishing well built of farm products and a rustic four-poster bed to display products. Other specials are displayed in front of the nonfarm counter.

Onfarm Selling

FB-2 itself had no organized program for visiting patron farms in 1986. If patrons had serious questions, FB-2's people tried to respond, but most likely they relied on the TR from FB, the product manager making less than 20 onfarm calls per year. The TR made about 150 onfarm calls annually within the local's area. On average, FB-2 made an equivalent of only one-tenth visit per AHP customer per year during 1986.

Onfarm selling ranks below instore selling by FB-2 because the local historically relied almost totally on patrons coming into the store. However, FB-2 now sees the need for onfarm selling, and in 1987 hired an onfarm salesperson jointly with a nearby local.

Purchasing

FB-2's inventory of AHP averaged $28,100 and turned over nearly four times during 1986. The local stocks only 90 AHP, relying on FB to stock items purchased infrequently by its patrons.

FB-2's product manager spends no more than 10 percent of his AHP time on purchasing decisions. Because of his great confidence in FB, he buys at least 90 percent of FB-2's AHP needs from the regional. This loyalty springs partially from a belief that the regional's prices are competitive, differences normally aren't worth negotiating, and FB's booking programs compensate for occasional higher prices. According to the product manager, he may book as much as 75 percent of the local's AHP purchases. In the final analysis, this local, like FB-1, incurs no special savings from lower prices on its purchases from FB.

FB's bookings and other sales events stimulate many of FB-2's purchases. Since they are planned to cover from 3 to 6 months, the product manager considers his needs carefully, using printouts of historical sales and exact amounts of inventory. On the other hand, regular purchases that supplement booked purchases are developed less carefully. The product manager visually reviews his inventory and develops orders, trying to keep enough stock for 2 weeks.

The product manager writes orders for the bulk of his purchases, leaving many at FB's product show and mailing the remainder. When orders are placed by telephone, FB-2 has most supplemental purchases within a few hours. FB-2's trucks go to FB's distribution center daily, since it is only 30 miles away. They carry most of the local's AHP purchases.

Pricing

FB-2's pricing of AHP is usually a simple matter of adopting FB's suggested retail prices. If the market dictates a lower level, FB-2 will accommodate, but only when it has verified that such action is really needed. The local seldom prices above FB's suggestions. Reasons for this conformity were presented in discussing FB-1.

The product manager prices all AHP except when changes will lead to major financial consequences–for example, reducing the price on a high-volume product. These practices apply to pricing AHP for sales events as well as for regular selling.

Advertising

In 1986, FB-2 spent 70 percent of its AHP advertising/promotion budget on advertising. FB-2's small AHP advertising budget went mainly to the local weekly newspaper. The advertisements it carried cost FB-2 about five times more than AHP's share of the cost to mail FB's newspaper. According to FB-2's product manager, AHP sales benefited from heavy advertisement of dog food by FB, FB-2, and nearby locals over radio and television stations in a nearby city.

Promotion

FB-2 spent its entire promotions budget on three sales dinners and one promotion. Dinners centered around feed and AHP for beef cattle, swine, and horses. Attendance at these three dinners, by invitation only, was 50, 40, and 75 persons, respectively. TR's from FB and AHP manufacturers provided the program, devoted a third of their time to AHP, and shared most of the costs. Products were exhibited and special prices offered, but orders were not solicited immediately. This was done over 2-week periods after each dinner.

FB-2 spent a small outlay on a successful event demonstrating the proper products and techniques for the health care of beef cattle. Alerted by an advertisement in the local paper, about 250 cattlemen came to FB-2's parking lot and participated. Besides learning how to deworm, vaccinate, and dehorn cattle, attendees witnessed the use of a new knife for castrating bulls.

AHP revenue was stimulated by 2 weeks of customer appreciation days during October, 2 weeks after FB's heavy promotion of AHP. FB-2 served free hot dogs and soft drinks during the first day and a half of the event, and offered special prices during the entire period. Some 1,150 persons attended appreciation days, but AHP's share of the cost was negligible. In 1987, FB-2 successfully experimented with an AHP/hardware show at the local fairgrounds where manufacturers exhibited products.

Other small promotions heightened an interest in agriculture among future patrons at no cost to AHP. Under one promotion, several 4-H Club children received free gifts of 25 baby chicks. Under a second promotion, several youths received free feed for their calves.

FB-2's Strengths in Retailing AHP

FB-2 has eight elements that strengthen its AHP marketing program. Six of these elements are almost identical to FB-1's: (1) a product manager with a strong interest in AHP; (2) a large number of patrons highly concentrated within FB-2's geographic market; (3) a high level of patron satisfaction, as evidenced by a dominant share of the AHP market, and resulting in an economical volume of AHP business; (4) a large store with a correspondingly large AHP display; (5) quality AHP displays and instore selling; (6) a heavy use of FB as a source for AHP and marketing programs; (7) selling AHP at relatively competitive prices, as indicated by an average gross margin of 17 percent; and (8) special promotions like the local's customer appreciation days, followed by its first product show in 1987.

UNAFFILIATED LOCAL NUMBER ONE

Unaffiliated Local Number One (UL-1) purchases a major portion of its AHP from UL-1S, a noncooperative company that manufactures these products. It typifies the services that UL-1 receives from its noncooperative suppliers.

Marketing of AHP by UL-1S

UL-1S is a large international pharmaceutical company with the financial strength to develop and market the best of products. It offers and guarantees about two dozen AHP, principally antibiotic injectables. UL-1S opened the territory surrounding UL-1 about the same time that UL-1 began selling AHP.

In 1986, UL-1S spent about $27,000 on

advertising and promotions within the territory served by UL-1's territorial representative. About $2,000 went toward distributor dinners and similar promotional efforts, while $25,000 was spent on advertising in national and regional publications. UL-1 should have benefitted from this advertising, as well as from UL-1S's product descriptions and sales promoting materials.

The TR, a 14-year veteran in AHP sales, is responsible for about 150,000 square miles of territory and almost 2 percent of UL-1S's national sales. Working 50 to 60 hours a week, he provides 80 percent of the manpower expended by UL-1S within his territory. The remainder is fairly evenly divided between headquarters staff and other regional employees, mainly the regional manager.

UL-1's manager gave the TR high marks for product knowledge, enthusiasm, and general salesmanship. Salesmanship includes advising on new products and promotions, helping with orders, and periodically riding with routemen to advise on product use and to support UL-1's selling efforts.

Retailing of AHP by UL-1

Unaffiliated Local One (UL-1) is the farm supply center of a large milk marketing and processing cooperative organized in 1960. It started the supply center almost immediately to service milking equipment and to supply dairy supplies and AHP. All three product lines are important to UL-1.

In 1986, UL-1 had a total AHP revenue of $625,000, and earned an average gross revenue of 15 percent and a net revenue of 4 (table 16). Total revenue was 26 percent of dairy supply sales, 16 percent of supply center sales, and 0.3 percent of sales by the entire cooperative (table 17).

In 1986, UL-1 spent $71,400 to market AHP, with salary and wage costs accounting for 65 percent of the total and 7.4 percent of revenue (table 18). In addition, the local spent 1.0 percent of its revenue on route trucks and 0.4 percent on promotions, the only measurable expenditures. UL-1 incurred virtually no credit costs because customers pay for AHP purchases out of receipts from milk sales.

The payroll expenditure paid for 1.4 man-years of effort, 10 percent of the supply center's total

Table 16—Margins from the sale of animal health products, unaffiliated local one (UL-1), 1986

Item	Volume	Percentage of sales
	Thous. dollars	*Percent*
Revenue	625.0	100
Cost of goods	533.1	85
Gross margin	91.9	15
Cost of business	71.4	11
Net margin before refunds	20.5	4
Refunds from suppliers	2.5	*
Net margin after refunds	23.0	4

* Less than one percent.

Table 17—Principal sources of revenue, parent cooperative of unaffiliated local one (UL-1), 1986

Revenue source	Thousand dollars	Percentage of total
	Dollars	*Percent*
Farm store: Products and services		
Animal health products	625	0.3
Calf replacers[1]	250	.1
Dairy farm supplies[2]	2,429	1.0
Dairy equipment and services	1,096	.4
All store total	4,400	1.8
Milk marketing, processing and related activities	237,513	98.2
All products and activities	241,913	100.0

[1]Unaffiliated local one (UL-1) neither mills nor markets feed for pasture livestock.
[2]Mostly cleaners, sanitizers, etc. UL-1 handles no fertilizers, seed, or agronomic chemicals.

Table 18—Costs to market animal health products, unaffiliated local one (UL-1), 1986

Cost items	Percentage of total costs	Percentage of total revenue
	- - - - *Percent* - - - -	
Payroll and related costs	65	7.4
Route trucks	8	1.0
Advertising	0	0
Promotions	4	.4
Travel	0	0
Other costs	23	2.6
Total	100	11.4

employment of 14 persons. AHP sales accounted for 14 percent of UL-1's total sales. Persons devoting time to AHP produced $446,000 per man-year.

In 1986, UL-1 sold about 250 AHP, all to 135 dairymen over a market area of 1,400 square miles. On average, this meant that UL-1 had one AHP customer in every 10 square miles of trade territory. AHP revenue was $4,630 per dairyman and $450 per square mile.

Mastitis treatments accounted for a third of UL-1's AHP sales; the remainder was standard OTC animal health products, except for a line of ethical drugs. The local is unique among the cooperatives studied because it supplies veterinarians with ethical products, some 9 out 11 that serve UL-1's market. The local is also somewhat unique in that it has withdrawn from urban sales, even though its market includes a city of more than 500,000 persons and several with more than 10,000.

UL-1 held a 55-percent share of the AHP market in its area in 1986, even though it faced nine competitors–including two distributors operating route trucks, three mail-order houses, and two veterinarians on retainer fees with dairymen. UL-1 was particularly sensitive to the veterinarians because they sold AHP at very low prices. It withstood one price-cutting distributor that went out of business in 1987.

UL-1's manager and his assistant are responsible for the store's success in AHP. The manager (25 years with UL-1 in this position) is in his early 60's, has more than 30 years of marketing experience, and has worked with dairymen most of his professional life. He is positive toward AHP; and markets this line with considerable freedom, following only broad guidelines from cooperative management.

The assistant manager is responsible for ethical drugs and, since 1985, has supervised the dairy routemen and shared managerial responsibilities. He also projects a positive attitude towards AHP. He grew up in the city, and started with UL-1 as a part-time employee in 1973.

Selling

The biggest share of UL-1's payroll for AHP activities goes toward selling activities which are dominated by three dairy routemen, the drivers of three dairy route trucks.

Route Truck Selling.–In 1986, dairy routemen accounted for half the hours expended on AHP, received 90 percent of the orders, and delivered 95 percent of the product. On average, each routeman sold $188,000 worth of AHP plus $742,000 worth of dairy supplies. Each served about 45 dairy farms through weekly sales calls. This is a much more intensive effort than that of FA-2. Onfarm calls totaled 7,000 a year, excluding an unknown number of calls to service milking equipment.

Essential elements of route truck selling are its service orientation and high degree of rapport and farmer respect built up over the years. The first two drivers served farmers for about 20 years, one working until he was 70 years of age.

Route truck selling begins at 5 a.m. 5 days a week. The objective is to call on 8 to 12 farms each day. Each driver operates a 2-ton closed delivery truck that carries a two-way radio. Similar to FB-2's truck, UL-1's trucks may also be viewed as either large, mobile P.O.P. displays, or small mobile stores. Cases of the products are neatly arranged on shelves and in bins along the interior walls, and all trucks have coolers for refrigerated products. Products are accessible through either the rear of the truck or the cab.

Special aspects of UL-1's route service are buyer convenience and punctuality. UL-1's drivers try to see either the owner or the herdsman. The drivers try to call on the same farms within an hour of the same time each week, usually while the cows are being milked. Purchasing agents like this and will often set aside time to check truck displays and add products to their buying list. This process increases buyer/seller communication and adds to UL-1's sales, reportedly up to a quarter of its total. If purchasing agents are not around, they may allow their driver to simply check needs and leave products. Otherwise, they list their needs on a chalkboard or bulletin board. Ordering is free of formal contractual arrangements.

Around noon, the routeman calls in his orders for the next day and returns to the store a couple hours later. There, he services and restocks his truck. The orders called in earlier are waiting for him on the loading dock.

A final aspect of UL-1's service is timeliness of deliveries. If orders are either too large to be carried on route trucks or the need is too immediate, deliveries are made with another truck. If an order is small and can wait, the driver calls back and delivers it the following day. Sometimes, another cooperative employee will deliver products, if the employee plans to be on or near the farm.

Instore Selling.–Only 10 percent of UL-1's sales are made at the store; thus, 1,000 square feet of

showroom space is adequate, with daily spring traffic averaging only 20 patrons. About 140 square feet is devoted to ethical drugs. The display area is well lighted and neat, and products are nicely arranged and exhibited. Display space includes two double-door refrigerators.

The assistant manager normally waits on patrons, though the manager sometimes gets involved. The store is closed to the public.

Promotion and Advertising

UL-1 spent only $2,500 on promotions in 1986, 0.4 percent of its AHP sales. A supplier covered this cost. Store patrons simply will not support sales dinners and do not respond to UL-1's advertisements.

Purchasing

While selling is UL-1's major emphasis in marketing AHP, the manager seems to spend the biggest proportion of his time in purchasing these products. The manager's skill is enhanced by his being a volume buyer and representing a store with an excellent credit rating, one result of being part of a large and successful business.

Since the late 1960's, AHP suppliers have been mainly manufacturers. In 1986, the managers purchased from nine suppliers, of which eight were manufacturers. These eight supplied 70 percent of total purchases; two accounted for 40 percent and seven for 30 percent. A distributor supplied 30 percent of UL-1's needs.

Even though they consolidate orders to take advantage of special volume discounts and a resulting order may include several hundred cases, the managers seldom obtain concessions on manufacturers' list prices. Rather, UL-1 frequently receives extra merchandise. This type of concession, along with regular volume discounts, means that UL-1 pays very low prices.

To ensure they are paying the lowest prices, the managers also avail themselves of all bookings and track alternative prices, once in a while finding some that cause a switch in manufacturers.

Since UL-1 pays a wholesale margin on only 30 percent of its purchases, it should save about 12 percent on its average purchase price, compared with local cooperatives that buy their AHP from wholesale companies.

Inventory

Tight inventory control is an integral part of UL-1's overall buying strategy. This entails making frequent purchases, so the managers reorder major products every 4 to 8 weeks, placing most of their orders when TR's stop by the store. They fully consider the level of inventory and future needs. This led to excessive inventory in 1986, when the managers misjudged the weather, which turned mild and caused below-normal use of AHP. That year, the inventory turned over only a modest three times. The average inventory was valued at $155,000.

The warehouse covers 6,000 square feet, including 60 square feet of cooler space. The warehouse is subdivided into several areas by type of AHP. This system gives ready access to and easy control of inventory, unaided by computers.

Prices and Margins

UL-1's manager believes that his store's AHP prices are among the lowest of any retail cooperative in the United States. Besides being based on low purchase prices, low store prices stem from the cooperative's members being very price conscious and favoring lower prices over higher patronage refunds. Low store prices also exist because the market is very competitive, and most of UL-1's patrons are large-volume buyers, a few being large enough to solicit bids.

Generally, UL-1 fulfills its members' wishes regarding prices and is seldom bested by competition for very long. The managers quickly adjust UL-1's across-the-board prices to justifiable changes by either suppliers or competitors. If justified, the managers respond quickly to any change in competitor prices. The routeman immediately passes on any change in these prices as he makes his daily farm calls.

Nevertheless, the managers stand firm against unwarranted low prices. They offer quantity discounts and charge the same prices off the trucks as in the store.

Pricing of AHP begins with the managers setting a goal for the average net margin. They added 11 percent to cover operating costs, thereby establishing 15 percent as the average gross margin. As with other cooperatives in this study, UL-1's margin was not uniform across all products. This process, according to the manager, is essential to a profitable operation. He has virtually no concern with credit; patron expenditures are subtracted from their milk receipts.

UL-1's Strengths In Retailing AHP

UL-1 has 11 elements in its marketing program that are strong, compared with other retailers in this study, and that are keys to Ul-1's success in AHP. These elements include: (1) a very successful product manager, one who doubles as the store manager and is therefore fiscally responsible for AHP, has many years in marketing AHP, has much enthusiasm for these products, and is an aggressive marketer; (2) a specialized product line confined to the needs of dairy cattle and receiving a primary interest from management; (3) an especially intense selling effort, almost totally devoted to onfarm selling through route trucks; (4) relatively low purchase prices stemming from the fact that UL-1 is a distributor that takes advantage of its suppliers' cost-saving programs; (5) having a very competitive price structure which combines with other strengths to produce an economical volume of AHP business; (6) virtually no credit problems, (7) a high level of patron satisfaction, indicated by a very large share of the AHP market and a very economical volume of business, in total and per patron–all achieved despite severe competition; (8) exceptionally low costs, supported by a very high level of AHP revenue per man-year invested; (9) a modest net margin that increases patron savings over and above that already noted; (10) traditional quality support from manufacturer suppliers; and (11) strong moral and financial support from UL-1's parent cooperative.

UNAFFILIATED LOCAL NUMBER TWO

Unaffiliated Local Number Two's (UL-2's) noncooperative suppliers are similar to UL-1's in that they supply the same standard marketing services and omit many of the services provided by cooperative regionals. One of UL-2's suppliers, UL-2S, illustrates this; though as a distributor, some of UL-2S's services differ from those offered by UL-1's manufacturer suppliers.

UL-2S's Wholesaling of AHP

UL-2S distributes a broad line of AHP (at least 1,000 items), plus dairy supplies, horse tack, pet supplies, western clothes, and some farmstead equipment. It began to retail AHP during the mid-1940's, and branched into wholesaling them about 10 years later. In 1986, the distributor retailed $500,000 and wholesaled $2.5 million of these products, about half of UL-2S's total wholesale volume. UL-2S's retailing causes little problem for UL-2 because the distributor's store is located outside the local's trade territory.

Services In General

Besides UL-2, distributor UL-2S serves nearly 350 retailers over almost 90,000 square miles of territory. In 1986, the distributor serviced its customers with three full-time TR's and one person who worked one fourth of the time. Typically, a TR returns to home base on Thursday evening, loads his three-quarter ton truck with at least a ton of merchandise, spends the weekend at home, and returns to his territory early Monday morning.

The TR's follow carefully developed routes designed so they can stop at some dealers biweekly and at the remainder every 4 weeks. Regardless of frequency, however, the TR's diligently attempt to be at the same dealer about the same time on the same day. Such careful scheduling allows the dealer to make the best use of its TR's time by preparing for the visit. During a stop, the typical TR calls the dealer's attention to new products and special sales events, inspects displays and inventory, suggests possible purchases, writes up a purchase order, and delivers appropriate product from the route truck. If necessary, the TR telephones orders in to the home office.

UL-2S generates 85 percent of its AHP sales and delivers 20 percent of them through this process. Another 40 percent of its sales are delivered by UPS, 38 percent are delivered by transfer companies, and 2 percent are picked up by dealers. UL-2S processes orders rapidly; any order received by noon is ready for a UPS pick-up by 5 p.m. the same day.

In 1986, UL-2S spent $32,000 on advertising and promotion to support dealer marketing activities. Of this, $20,000 went for advertising shared fifty-fifty with suppliers, and the balance went mainly for an all-expense April trade show for dealers covered totally by suppliers. It began on a Friday and lasted 1.5 days, featuring dining and dancing on Friday night and a Saturday full of educational activities highlighted by a picnic and barbecue. Saturday activities were held in UL-2S's warehouse. Dealers received an opportunity to place orders on Sunday morning.

Special Distributor Relationship

UL-2S began supplying UL-2 with AHP shortly after its present manager joined the cooperative; consequently, a long-time friendship has developed. Moreover, the same TR from UL-2S has served UL-2 for over 20 years.

Nevertheless, the TR conducts business in an efficient manner. For example, the TR always arrives at the UL-2 manager's office between 7:00 and 7:30 a.m. on Tuesday. The manager listens to the TR, and if purchase terms are agreeable, the manager places an order. Neither party takes advantage of the other, though UL-2 buys at prices as low or lower than any of UL-2's other retailers. UL-2 uses the leverage of being one of the largest, if not the largest, of UL-2S's dealers.

Table 19—Margins from the sale of animal health products, unaffiliated local two (UL-2), 1986

Item	Volume	Percentage of sales
	Thou. dollars	*Percent*
Revenue	480.0	100
Cost of goods	432.0	90
Gross margin	48.0	10
Cost of business	42.1	9
Net margin before refunds	5.9	1
Refunds from suppliers	0	0
Net margin after refunds	5.9	1

Table 20—Principal sources of revenue, parent cooperative of unaffiliated local two (UL-2), 1986

Source of revenue	Volume	Percentage of total
	Thou. dollars	*Percent*
Farm store		
Animal health products	480	0.2
Dairy supplies	540	.2
Dairy equipment and services	2,480	1.0
Total	3,500	1.4
Feed mill	24,000	9.6
Milk marketing and processing	222,500	89.0
All products and services	250,000	100.0

Retailing by UL-2

UL-2 is similar to UL-1 in that it is a farm store for a large parent cooperative that markets and processes milk. It is different in that it operates a feed mill which produced $24 million of income in 1986. The mill is part of a complex, well within the city limits of the cooperative's home town, that includes a creamery, a farm store, and executive offices.

The parent cooperative began operations during the early 1900's, adding AHP to its product line during the late 1950's. In 1986, it sold $480,000 of these products, earning an average gross margin of 10 percent and a net margin of 1 percent (table 19). AHP is one of the store's primary product lines, equaling 89 percent of the income from dairy supplies, 16 percent of the store's entire income, and 0.2 percent of the cooperative's entire revenue (table 20). The manager estimates that he would lose 70 percent of his AHP business if he did not handle dairy supplies and 100 percent if the creamery closed.

UL-2 spent $42,100 to market its AHP in 1986. The 74 percent of this amount for salaries and wages equaled 6.5 percent of the revenue from AHP (table 21). The local spent very little on travel and nothing to promote and advertise AHP. Payroll costs were equivalent to 0.9 man-year of effort, 10 percent of the store's total employment. The effort produced $533,000 of AHP revenue per man-year.

The local handled 220 AHP in 1986, plus dairy supplies, dairy equipment and service, specialty feeds, seed, clothes, groceries, and some hardware, but no fertilizer, chemicals, building supplies, or auto supplies.

Table 21—Costs to market animal health products, unaffiliated local two (UL-2), 1986

Cost items	Percentage of total costs	Percentage of total revenue
	- - - - *Percent* - - - -	
Payroll and related costs	74	6.5
Advertising	0	0
Promotions	0	0
Travel	0	0
Other costs	26	2.3
Total	100	8.8

UL-2 sold AHP to about 990 patrons, including 390 farmers, mostly dairymen members who account for 90 percent of AHP sales. UL-2 also attracted a half dozen dairymen from a submarket about 100 miles away. Total geographic market extended over 2,200 square miles, an average of about 2 square miles per patron. UL-2's revenue from AHP averaged $480 per patron ($1,140 per farmer) and $220 per square mile of territory.

The store sold 7 percent of its total AHP sales to some 600 nonmember customers, many of whom are urbanities. They find UL-2 an attractive place to buy basic grocery needs and some clothes. Most of these sales originate from within UL-2's home city of 30,000 persons, though its market includes one city of nearly 75,000 population, two of 20,000, and several of up to 10,000.

In 1986, UL-2 held about a 20-percent share of its territory's AHP market. This share was above average for the 13 principal competitors despite stiff competition, mainly from 6 that retailed through route trucks. One distributor that sells directly to farmers as well as in large quantities to UL-2 is reported to have seven trucks operating within at least some of UL-2's territory. Three mail-order houses also did some business, but did not seem to provide major competition. Three veterinarians refer about as much business to UL-2 as the local refers to them.

Assisted by store staff, almost all of the credit for UL-2's success in marketing AHP goes to the store manager. He is in his late-40's and has nearly 30 years of experience with AHP, having been a routeman and manager with a UL-2 competitor. He joined the store as a clerk about halfway into his career, became its manager in 1974, and helped its business grow to the present size. The manager is supported strongly by his vice president and his chief clerk.

Selling

The largest proportion of UL-2's cost to market AHP goes into selling activities. Two-thirds of this investment is contributed by four clerks, who devote about 15 percent of their time to AHP. They do practically all of the in-store selling, which accounts for 99 percent of the store's sales of these products.

Instore selling of AHP rests on two key premises: (1) UL-2 wants to supply its patrons with these products. (2) It does this to improve the productivity of patron livestock and to increase patron earnings. The store's manager and vice president stress that, "We're here to make dairymen a profit," and "if someone else can do the job better, we'll close the operation."

Entering the store from the street, a customer sees the showroom from which UL-2 sells AHP. Immediately ahead, the customer sees a four-sided sales counter in the middle of 3,200 square feet of merchandise. To the right is clothing displayed at the far wall. On the left are well-lighted, easily accessible displays of AHP and dairy supplies (140 square feet) in the near corner. Across the showroom (40 feet), the customer notes the manager's office and, to its immediate left, a display of refrigerated AHP. The refrigerator is unique, because it is built into the wall and can be filled from a cooler behind it. The cooler stores dairy products, which are carefully segregated from AHP.

This showroom is essentially a self-service farm discount store. This means that it retains a farmstore atmosphere, but appeals to the farm wife. It also means that store clerks mainly stock shelves and finalize purchases, usually helping and advising patrons only when asked. The manager believes that most farmers know the products they want and only need help in finding them. Nevertheless, he tries diligently to keep current on new products, so that he can answer all questions about AHP.

UL-2 hires no outside fieldmen to sell AHP, but puts many other people into its market place that have a salutary effect on AHP sales. Route trucks are on the farms daily picking up milk; feed trucks make deliveries as needed. Equipment servicemen call regularly and as needed, and a nutritionist does the same.

Like UL-1, this local's minimal credit costs help contain selling costs. The bulk of customer purchases are charged against customer receipts from their sales of milk.

Pricing

UL-2's philosophy of pricing all store merchandise, including AHP, is simply that of giving its patrons the best price possible. UL-2's board of directors defines the best price as one resulting from an across-the-board gross margin of 10 percent, except on refrigerated AHP, which are more costly to market. This means that UL-2 operates a discount store, though this was not the members' original intent. They simply want whatever savings the store generates at the time of purchase, rather than at year end as patronage refunds. They enable nonmembers as well to benefit from UL-2's pricing policy.

As a result of this policy, UL-2 became the area's price-setter. Management says, "We are the competition, for prices on most of the store's products are lower than those of competitors, especially those that sell through route trucks." Moreover, UL-2 reportedly has forced the general level of prices down within its trade territory.

UL-2 has long had a reputation for low-priced AHP. This policy is widely discussed among its members and generally known by nonmembers. However, since the policy is for the benefit of members, UL-2 neither advertises nor promotes it, again by direction of the cooperative's board of directors. Nevertheless, knowledge of UL-2's pricing policy has spread by word of mouth, and the cooperative has attained a satisfactory volume of AHP sales. UL-2's sales of AHP are also encouraged by patrons being able to charge purchases against their receipts from milk marketings.

Purchasing

Buying ranks next to selling in UL-2's marketing activities, since its pricing is simplified and advertising is prohibited. Buying is important because, with the level of gross margins mandated at a low level, prices paid to suppliers more directly determine UL-2's prices than they do for other cooperatives in this study.

The manager tries to "buy well," using five distributors in the process, not manufacturers as UL-1 does. In 1986, the manager directed 40 percent of UL-1's purchases to one distributor and 22 percent to a second. As much as possible, the manager avails himself of the sales events and bookings of a distributor. The manager uses only half of the bookings, however, rejecting those in which the distributors couple slow-moving products with those the manager would otherwise buy. Supplier TR's account for 60 percent of the time UL-2 devotes to AHP purchasing.

One of UL-2's principal distributors also uses route trucks to sell directly to farmers. UL-2 has come to tolerate this activity, after some price warfare, as long as the competitor includes sufficient margin in its prices to cover the cost of operating its route trucks.

UL-2 helps minimize its costs by maintaining a minimum level of AHP inventory. In 1986, inventory averaged $53,000 and turned eight times, with some items turning that many times within a week. UL-2's suppliers helped it maintain a low level of inventory by reliably filling its purchase orders rapidly. At least two operate from nearby cities. One operates a route truck that services UL-2 weekly, thereby supplying some of the local's needs immediately. Both suppliers rely heavily on UPS, but they will deliver with other trucks when purchases exceed minimum volumes.

UL-2's Strengths in Retailing AHP

UL-2 exhibits 11 special strengths in relation to other retailers in this study. These strengths are: (1) a dynamic product manager who works very diligently at retailing AHP, is financially accountable, and is experienced in marketing AHP and managing a store; (2) a specialized product line, confined mostly to the needs of dairy cattle, and a line receiving primary interest from management; (3) relatively low purchase prices; (4) competitive retail prices, which combine with other strengths to produce an economical volume of AHP business; (5) virtually no credit problems; (6) a high level of patron satisfaction, reflected in UL-2's ability to maintain market share and an economical volume of business, despite very severe competition; (7) exceptionally low costs, supported by a high level of AHP revenue per man-year invested, a high rate of inventory turnover, and a modest level of payroll costs; (8) strong moral and financial support from UL-2's parent cooperative; (9) a large number of patrons relatively densely concentrated within UL-2's trade territory; (10) some positive benefit on AHP sales from the feed mill business, even though AHP are sold separately from feed; and (11) excellent in-store merchandising.

CONCLUSION

Cooperative outlets and local associations have historically been important to the retailing segment of the U.S. AHP industry. Certain strengths or elements have made their marketing programs successful in providing the products, services, and savings desired by cooperative patrons. Elements of retail marketing programs that contribute to successful cooperative retailing of AHP include the following.

1. *Emphasis on AHP as a product line.* Outlets/locals need to treat AHP as one of their primary product lines.

2. *Enthusiastic product manager.* The enthusiasm of successful product managers needs to be built on a personal interest in AHP. This needs to be enhanced by product managers being made financially accountable for AHP so their success can be measured.

3. *Complementary marketing with related*

product lines. Sales of AHP and feed and dairy supplies, for example, are closely tied in many markets. Therefore, recognizing the connection between AHP and other product lines and exploiting it enhances the marketing of all products involved.

4. *Low acquisition costs.* The retailer must constantly seek ways to keep acquisition costs as low as possible. This means taking advantage of special sales events and other savings opportunities. It also suggests the need for diversifying AHP sources.

5. *Strong advertising program.* Adequate expenditure on advertising needs to be made through an appropriately designed program, with proper products, media, and formats.

6. *Effective onfarm selling.* Except possibly for outlets/locals operating discount stores, onfarm selling and other forms of direct farmer contact are necessary elements of successful retailing programs. How this direct contact with the farmer is carried out can vary, however, given the characteristics of individual farmers and markets. For example, telemarketing may be the best approach in one market, while route trucks may be more effective in another.

7. *Customer-oriented marketing program.* Program must be carefully designed to recognize and reflect the differing economic and social needs of its intended patrons.

8. *Balanced marketing program.* Program selects and uses program components in a manner that maximizes the returns from retailing AHP. For many retailers, this means doing things like initiating product show and customer appreciation days. The retailer must establish a balanced strategy that uses the range of marketing tools available.

9. *Major share of market.* As a goal at least, gaining and holding a significant market share helps management focus on AHP as a primary line of products. Achieving this goal requires an adequate patron base and volume of business.

10. *Effective cost control.* Costs need to be accurately measured and controlled to enhance patron savings, as well as to allow competitive pricing and marketing flexibility.

11. *Proper use of wholesaler marketing programs.* The retailer must have a full understanding of its suppliers' programs and how it can use those programs to enhance its AHP operations. It must adopt and aggressively pursue those programs having the greatest positive effect on retailer sales and profitability.

This study also identified certain elements of wholesaler AHP marketing programs that contribute to successful retailer operations. These are of particular importance to cooperatives in a multi-level or vertically organized system. These elements include the following. It is no surprise that some are quite similar to those needed at the retail level.

1. *AHP treated as a primary product line.* To maximize success with AHP, wholesalers must support their AHP product managers fully. They must also free them from other responsibilities and make them financially accountable for this line of products.

2. *Dedicated and cohesive marketing team.* Marketing personnel should be dedicated and unencumbered enough to spend considerable time with outlets/locals and devote a relatively large proportion of this time to AHP.

3. *Minimized acquisition costs.* Using alternative suppliers, paying low prices, and taking full advantage of manufacturers' refunds and special sales should be practiced.

4. *Numerous special sales events supported by booking programs.* Special sales events should be ones on which retailers can build their own programs. These events need to be well designed and executed.

5. *Retail-oriented marketing programs.* Programs must focus on helping retailers increase margins through improved advertising, promotions (sales dinners, and so forth), instore merchandising, and onfarm selling.

6. *Balanced marketing programs.* The wholesaler must examine the range of marketing tools available and select the mix of tools or strategies that maximizes effectiveness.

7. *Effective cost control.* Operating costs must be accurately measured and understood. For regionals, this may mean AHP wholesaling departments operating as cost centers if not profit centers.

8. *Flexible pricing.* Through flexible pricing programs, cooperative outlets and locals remain competitive in the marketplace by adjusting to unique competitive conditions in different sectors of the market.

9. *Rapid delivery of orders.* Rapid delivery is critical to the retailer. Achieving this may mean more electronic ordering and multiple distribution centers.

10. *Provision of a range of general business services.* Provision of a broad range of business services distinguishes cooperatives from other wholesalers of AHP, creates a special bond between the regionals and their outlets/locals, and enhances patron savings for cooperative retail organizations.

Glossary

Industry Terms

Animal health (AH) instruments - A wide variety of items ranging from dehorners to syringes for injectable products. The term also includes ear tags, but excludes barn equipment and pet supplies.

Animal health products (AHP) - In this study, AHP include over-the-counter AHP and animal health instruments, except for one cooperative which also handles ethical AHP. In this study, AHP are restricted to biologicals, pharmaceuticals, and other products.

At the manufacturers' level, AHP include biologicals, pharmaceuticals, and feed additives used in the production of livestock and poultry and in the care pets. At lower levels in the marketing chain, the term may also include dairy supplies, animal health instruments, and other products.

Biologicals - Vaccines, bacterins, and antitoxins.

Dairy supplies - Products used either in the dairy parlor or on dairy cows prior to milking, such as pipeline cleaners, disinfectants, teat dip, and udder towels.

Ethical animal health products - All AHP prepared for distribution by veterinarians and available to users only with prescriptions.

Feed additives - A wide variety of AHP sold in bulk form for mixing into animal and poultry feeds, including antibacterials, nutriments (vitamins, minerals, and enzymes), and other products (parasiticides, feed preservatives, and hormones).

Other animal health products - Injectables, such as dextrose; medicinals, such as mastitis treatments; disinfectants, not for dairy parlors; packaged nutriments; and rodenticides.

Over-the-counter (OTC) AHP - All AHP prepared for sale through retail stores, especially all biologicals, pharmaceuticals, and other AHP packaged for dosage treatments.

Pharmaceuticals - Antibacterials, analgesics, tranquilizers, anthelmintics, and parasiticides.

Cooperative Organizations

Centralized regional - A regional cooperative directly owned and controlled by farmer patrons, usually within a geographic area equal to at least one State.

Federated regional - A regional cooperative indirectly owned and controlled by farmer patrons through two or more locals within a geographic area usually equal to that of at least one State.

Local - At the community level, usually no more than one county in size, a centralized form of cooperative owned and controlled by farmers.

Outlet - A retail operation of a centralized regional serving the regional's members in a designated community.

Unaffiliated local - A local cooperative that purchases all of a product line or lines from noncooperative suppliers.

Financial Terms

Cost of business - The sum of expenditures on payroll, advertising, promotion, travel, and other costs.

Cost of goods sold - The cost of acquiring salable merchandise, calculated as the cost of merchandise on hand at the beginning of the year plus the cost of merchandise purchased during the year minus the cost of merchandise on hand at the end of the year.

Gross Margin - Revenue minus cost of goods sold.

Inventory turnover - The rate at which inventory moved during the year, equaling the cost of goods sold divided by the average annual inventory.

Net margin - The difference between gross margin and cost of business.

Other costs - All costs not specified under the cost of business, such as interest, facility expense (depreciation, real estate taxes, repairs, and so forth), overhead charges (salaries of top level managers, indirect charges for service, and so forth), and miscellaneous expenses (utilities, telephone, supplies, and so forth).

Payroll costs - Salaries, wages, and employer cost of employee benefits.

Refund - A monetary consideration from suppliers to buyers for their help in advertising and promoting supplier products. This refund is distinct from patronage refund, a payment from a cooperative to its patrons. Patronage refunds are not discussed in this report.

Revenue - Gross receipts from the sale of merchandise and service.

Other Terms

Booking - A special type of purchasing agreement under which delivery is delayed until a future date(s).

Department - In this study, a generic term used to simplify discussion. A term that identifies fiscally responsible entities within companies.

Marketing - Specified commercial activities related to the exchange of products, such as purchasing, pricing, inventorying, advertising, promoting, and selling.

Point-of-purchase (P.O.P.) - Instore advertising such as mobiles, displays of product literature, and special displays of product.

Promotion - Specified activities designed to enhance sales other than direct selling and advertising activities, such as sales dinners, product demonstrations, patron appreciation days, customer awards, and incentive programs.

Territory representative - An employee of either a manufacturer or a wholesaler hired to sell products and otherwise represent the employer. This employee is identified as a TR.

Appendix

Appendix table 1 – Salient information relative to the marketing of animal health products by eight cooperative outlets/locals, 1986

Information	Outlet CR-1	Outlet CR-2	Local FA-1	Local FA-2	Local FB-1	Local FB-2	Local UL-1	Local UL-2
Background:								
Size of trade territory (sq. mile)	900	2,000	700	1,000	1,100	1,200	1,400	2,200
Principal species:								
Type	dairy	swine	swine	dairy	beef	beef	dairy	dairy
Species' share of AHP purchases (pct.)	60	40	90	50	40	60	100	90
Number of AHP marketed	130	320	90	220	550	90	250	220
Level of interest in AHP by:								
Produce manager	low 1/	high 1	high	high	high	high	high 1/	high
General manager	low 1/	high 1/	low	low	low	low	high 1/	high
Major business of outlet	farm supplies	farm supplies	grain elevator	farm supplies	farm supplies	farm supplies	milk mktg.	milk mktg.
Number of AHP customers	90	400	110	290	1,200	1,300	135	990
Number of competitors:								
Primary 2/	4	1	5	6	1	2	2	6
Total	25	18	20	20	11	9	9	13
Product manager's level of experience (years)	10	23	10	6	6	5	>30	30
Marketing program:								
Man-years expended annually	.08	.40	.20	.13	.80	.80	1.40	.90
Purchases and purchasing:								
Type of principal supplier	co-op	co-op	nonco-op	co-op	co-op	co-op	nonco-op	nonco-op
Share supplied by co-op (pct.)	95	90	30	90	90	90	0	0
Co-op's role relative to prices paid 3/	price taker	strong buyer	strong buyer	price taker	medium buyer	medium buyer	strong buyer	strong buyer
Inventory turnover (times/year)	2.0	7.8	3.2	4.8	2.4	3.6	3.4	8.2
Pricing practice	meets competition	meets competition strongly	meets competition strongly	meets competition	determines prices	determines prices	meets competition strongly	determines prices
In-store merchandising:								
Size of store (sq. ft.)	750	1,200	310	320	5,000	4,000	1,000	3,200
Spring patron traffic (av./day)	120	200	50	60	500	150	20	unknown
On-farm selling:								
On-farm calls, number per year:								
By product manager	400	800	150	150	50	20	50	0
By all persons	600	1,400	750	4,000	800	150	7,000	0
Per AHP patron	7	5	7	14	0.7	0.1	52	0
Number of specialists	0	0	0.4	1.4	0	0	3.0	0
Dependency on co-op supplier:								
Degree	very heavy	very heavy	heavy	heavy	very heavy	very heavy	none	none
Main reasons other than source of purchase	tie-in 4/ advertising	tie-in 4/ purchase prices	on-farm person 5/	on-farm person 5/	purchase prices, advertising	purchase prices, advertising	none	none
Market share (%)	5	60	15	10	60	60	55	20

Appendix table 1 – (continued)

Information	Outlet CR-1	Outlet CR-2	Local FA-1	Local FA-2	Local FB-1	Local FB-2	Local UL-1	Local UL-2
Financial results								
Revenue (thou. dol.)	19.3	168.0	78.4	40.4	120.5	120.5	625.0	480.0
Gross margin (pct. of revenue)	12.0	21.7	19.0	20.0	25.0	16.7	14.7	10.0
Cost of business	16.1	13.7	10.7	11.0	20.1	16.0	11.4	8.8
Payroll (pct. of revenue)	(7.3)	(8.6)	(4.5)	(5.9)	(13.8)	(11.5)	(7.4)	(6.5)
Route truck (pct. of revenue)	(0.0)	(0.0)	(0.0)	(1.8)	(0.0)	(0.0)	(1.0)	(0.0)
Promotion (pct. of revenue)	(3.9)	(0.3)	(0.3)	(0.2)	(0.6)	(0.3)	(0.4)	(0.0)
Advertising (pct. of revenue)	(1.9)	(0.3)	(0.4)	(0.3)	(1.4)	(0.7)	(0.0)	(0.0)
Travel (pct. of revenue)	(0.5)	(1.8)	(0.1)	(0.4)	(0.2)	(0.1)	(0.0)	(0.0)
Other (pct. of revenue)	(2.5)	(2.7)	(5.4)	(2.4)	(4.1)	(3.4)	(2.6)	(2.3)
Net margin before supplier refunds (pct. of revenue)	-4.1	8.0	8.3	9.0	4.9	0.7	3.3	1.2
Supplier refunds (pct. of revenue)	2.0	0.3	0.3	0.6	0.3	0.3	0.4	0.0
Revenue generated per:								
Patron (dollars)	210	420	710	140	100	90	4,630	480
Square mile of market (dollars)	21	84	112	40	110	100	446	218
Man-year of input (thou. dollars)	242	420	412	311	151	151	446	533

1) One person functions in both positions.
2) Direct-to-farm distributors, retail outlets operating route trucks and discount stores.
3) The degree to which the local bargains with its suppliers.
4) Outlets owned by the regional.
5) Retail person trained by regional.

Appendix table 2 – Salient information relative to the marketing of animal health products by three cooperative distributors, 1986

Information	CR	FA	FB
Background:			
Size of trade territory (thou. sq. miles.)	150	270	40
Number of retail outlets	117	1,200	79
Number of AHP marketed	2,180	340	850
Number of competitors	10	16	>10
Marketing program:			
Number of persons involved in program	13	55	10
Man-years expended on program	2.4	10.5	3.8
Number of suppliers	85	22	60
Number of special sales events	1	4	2
Number of total sales events	10	11	11
Territory representatives:			
Number	10	50	7
Av. area served (thou. sq. miles)	15	5	6
Use of telemarketers	yes	yes	no
Advertising in:			
Co-op's paper	yes	no	yes
Co-op's monthly fliers	yes	no	yes
Inventory turnover (times/year)	2.9	5.1	6.0
Market share (%)	<5	<5	65
Financial results:			
Revenue (million dollars)	2.0	2.8	5.2
Gross margin (pct. of revenue)	13.1	14.7	14.7
Cost of business	10.5	24.7	10.7
Payroll	(2.9)	(8.1)	(1.8)
Distribution	(1.4)	(7.0)	(1.6)
Promotion	(nil)	(0.5)	(0.3)
Advertising	(1.2)	(0.9)	(0.1)
Travel	(0.2)	(0.4)	(0.2)
Other	(4.8)	(7.8)	(6.7)
Operating margin	2.6	-10.0	4.0
Commissions*	2.2	1.0	2.1
Refunds**	0.8	0.6	0.3
Net margin	5.6	-8.4	6.4
Revenue generated per:			
Outlet (thou. dollars)	17	2	66
Square mile of market (dollars)	14	10	131
Man-year of input (thou. dollars)	848	269	1,381
Advertising & promotion cost (thou. dollars)			
Per thou. sq. miles of territory	171	141	647
Per man-year of marketing effort	10.7	3.6	6.8

*For direct shipments.

**Supplier refunds on advertising and promotions.

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